The ISLAMIC INSURANCE

THEORY and PRACTICE

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In the Name of God, Most Gracious, Most Merciful

(Islamic Insurance and Reinsurance: Theory and Practice)

REFERENCES

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INTRODUCTION

Praise be to God, who taught man unknown matters in writing. May God's blessings and peace be upon our Master, the Beloved Prophet Muhammad, Master of Arabs and non-Arabs.

Security is a natural desire, which Man seeks by different means. Man naturally loves his property and takes care of his life. This is confirmed by the Holy Quran, where God says: "You love money amply" (Al-Fajer 20).

Man's love for his life motivates him to avoid perils he anticipates by all possible means and measures. If these perils come upon him, they trouble him and cost him enormous losses and worries.

Insurance is one of the means people have used for ages to deal with the consequences of damages, risks, and disasters which befall them in order to alleviate their impact or to avoid them completely. Insurance has developed to cover most economic activities such as commerce, industry, and agriculture. People resort to insurance even though it might not be compulsory by law. For example, insurance against public liability resulting from car accidents is compulsory in reality because people have no means, except insurance, as an effective guarantee against risks to which they are exposed.

Cooperative Insurance (*Takaful*) has been established and considered a legitimate alternative to Commercial Insurance by a decision issued by the Islamic Jurisprudence Council. Consequently, it has been necessary to develop different ways to deal with Cooperative Insurance and to draw up a new broad perspective for it. This will allow the establishment of Islamic insurance companies, whereby Cooperative Insurance becomes the basis for their business and their transactions.

Concerted efforts have been made to achieve the above. These efforts resulted in drawing up a developed, theoretical perspective for Cooperative Insurance which will be suitable for the establishment of companies which cover all kinds of insurance covered by commercial insurance but in a distinct, legitimate and lawful manner.

Some Islamic banks have adopted the idea of Cooperative Insurance in its advanced form. These banks have established cooperative insurance companies in many Islamic countries, including the Islamic Insurance Company in Jordan.

In order for Islamic insurance companies to succeed, they had to adopt Reinsurance because it is an integral part of Islamic Insurance. Islamic Insurance cannot flourish and succeed except by Reinsurance. The capital of Islamic insurance companies cannot cover the consequences of catastrophic damages which are insured and which may reach tens or hundreds of thousands. Therefore, these companies had to have a financial cover to enable them to recover the consequences of these damages. This cover is provided by the Reinsurance Companies.

Reinsurance is considered as an important means to guarantee the payment of compensation to the Insured who are involved in accidents . Some countries have imposed a condition for the approval of establishing Islamic and non-Islamic Insurance Companies requiring them to present Reinsurance agreements beforehand; otherwise, the establishment of these companies will not be approved.

It is a well-known fact that the recently-established Islamic Insurance and Reinsurance Companies, in comparison with other Commercial Insurance Companies, are considered to be new and few and do not possess high financial solvency. Consequently, Islamic insurance companies have different methods of Reinsurance; each one has its own philosophy in this respect.

Therefore, we have decided to deal with this subject and its various aspects as an independent piece of research under the title "Islamic Insurance and Reinsurance: Theory and Practice". It will be printed and distributed by special support from The Islamic Insurance Company in Jordan. The book will provide an opportunity for those interested to understand the issues and to present their ideas . This will enrich the experience of Islamic Insurance Companies and help them to flourish. We seek God's help and counsel because He is an Almighty helper and supporter, who gives success.

PART ONE

Islamic Insurance: Theory and Practice

Chapter One: Simple Cooperative Insurance as a Base for Compound Cooperative Insurance

Chapter Two: Advanced Cooperative Insurance which Islamic Insurance Companies Practice

Chapter Three: Practical Applications of Islamic Insurance in the Islamic Insurance Company in Jordan

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CHAPTER ONE

Simple Cooperative Insurance as a Base for Compound Cooperative Insurance

This chapter contains the following topics:

1. The Concept of Simple Cooperative Insurance
2. Applicable Forms of Simple Cooperative Insurance
3. History of Simple Cooperative Insurance
4. Characteristics of Simple Cooperative Insurance
5. Legitimacy of Simple Cooperative Insurance

1. The Concept of Simple Cooperative Insurance

Cooperative Insurance is generally based on the concept that the negative impact of a specific incident is distributed among a group of persons instead of making the person who experienced the loss to bear its results alone.

The means to achieve this is to establish a common fund to which everyone exposed to a specific risk may contribute in such a way that indemnity will be paid from that fund. In this type of insurance, the Insured seeks guarantee from a group of persons who are participants in the insurance. At the same time he supports other members when they are faced with losses. Members who share in this insurance insure each other's losses on the basis of legitimate cooperation and *Takaful.*

Cooperative Insurance has two types: the first is the old simple type which takes the form of a Cooperative Society comprising a specific group of persons to avert risks resulting from a specific incident. Each member pays an amount of money in order to compensate any member exposed to a risk insured against. The compensation is settled from the total sum of premiums. If an amount of premium is left, it will be repaid to the members; if premiums are not sufficient, then additional premiums will be collected from them.

This kind of Cooperative Insurance is called Simple Cooperative Insurance, which is the subject of this chapter.

The second type of Cooperative Insurance is the Simple Cooperative Insurance. When this type is managed by a specialized company in its capacity as an agency , it is called the Islamic Insurance Company. We have called this kind of insurance Compound Cooperative Insurance, and it will be discussed in the next chapter.

Definition of Simple Cooperative Insurance

Scholars have similar definitions of this type of insurance. One of the definitions is "compensating for the loss which may befall one member by means of subscribing cash money from which compensation is paid to any subscriber when he or she suffers from the loss insured against."

Simple Cooperative Insurance can also be defined as, "a collective insurance contract by which each member is committed to pay an amount of money as donation to compensate for the damages which may befall any of them when the loss insured against occurs."

2. Applicable Forms of Simple Cooperative Insurance

Simple Cooperative Insurance has two forms:

The first: Simple Cooperative Insurance based on participation **.** Persons who are exposed to similar risks form a society with the aim of helping one another in distributing the financial loss which one of them may incur during the period of the agreement. In this case, members who have subscribed to this insurance do not pay any premium or amounts of money except expenses required to establish the society. These expenses are paid in the form of membership fees.

The second: Simple Cooperative Insurance whereby the premiums have been paid in advance. Each member in this insurance pays a premium in advance when joining the insurance. Paying a premium in advance makes it easy for subscribers to pay compensation to the injured members at the moment the incident takes place and the loss is validated.

When the contract expires, subscribers' accounts will be closed, and each member will be given whatever is left from the premium paid in advance if it is more than his share in the loss. Otherwise, he may be asked to pay an additional amount if it is proven that the premium he has paid in advance was not sufficient to cover the reimbursement given to the injured.

If Cooperative Insurance is of the first type, the participants, such as goldsmith shops or car parts shops, should be of the same profession . In this case, everyone cooperates against the risk of theft , fire or similar risks. In addition, properties exposed to similar risks have equal or almost equal value so that shares of members participating in making up for the loss will be almost equal.

Insurance operations for members of this kind of collective insurance are managed and run by a special board of trustees which is elected from the shareholders. This board has a term of a specific period between one to three and one-half years in accordance with the agreement made between members. The board of trustees appoints a general secretary, who is an expert in management and insurance, in order to run and handle insurance operations administratively and technically, either by himself or with the help of some technicians.

Cooperation in covering the loss in this type collective insurance is done in two ways:

First: The party authorized to run insurance operations issues an insurance policy to each member, in which no mention is made of any premiums or the method of paying premiums. The only thing mentioned in the policy is a pledge by the member that he will pay a specific share of the financial losses which the members incur at the moment when the insured loss occurs .

Second: The party authorized to run insurance operations does not issue an insurance policy, but it considers membership cards to be sufficient in the collective insurance to cover the risk. This stipulates that shares which are paid to cover losses should be equal and that the insurance amounts should be equal. In this way all members shoulder this responsibility equally. In the case that the shares which are paid to cover losses are not equal, the responsibility for these losses will be distributed in proportion to shares owned by each member.

Insurance operations are organized by means of laws and regulations, in addition to the constitution which specifies risks, insurance conditions, value of shares, and methods of payment when one member incurs a financial loss . These are considered the main tools to operate this type of Insurance .

A subscriber to this kind of insurance may withdraw from it. Thus, he may cancel his insurance contract regarding himself or his properties at any time he desires, on condition that he should pay his share of the losses which have indeed taken place before his withdrawal.

Regarding the procedures which should be applied when any subscriber in the insurance suffers any kind of loss, that member who has actually suffered loss must notify, in writing, the general secretary of the insurance society. The general secretary calls for the formation of a committee of technicians to estimate the value of financial losses of the property of that member, or the general secretary may do this on his own. After the policyholder accepts the estimate which the committee gives him, an amount of money is designated to him as indemnity to cover the loss and the expenses he has incurred because of the incident. The amount of indemnity is then distributed among the subscribers in the insurance on the date in which the incident takes place. After that, the administration asks each member to pay the required share to the fund of the society. This should be done as soon as possible so that the society may reimburse the member who has incurred the loss.

The second kind of insurance, which has premiums paid in advance, is similar to the first kind regarding its formation and management. But it differs from the first in that members' subscriptions are collected in advance. This procedure enables the insurance society to pay losses and expenses immediately when they are due without having to wait for the collection of the designated amounts (shares) from members.

Premiums paid in advance are sufficient tools to pay indemnities and administrative expenses, as well as to have enough reserve needed for insurance operations.

3. History of Simple Cooperative Insurance

Cooperative Insurance in its simple form, which was mentioned above, is very old. Necessity required it as one means of cooperation for good deeds. It is the oldest kind of insurance, and it is the closest kind of insurance to the concept of *Takaful* and cooperation.

Studies related to insurance have mentioned that this type is the oldest form which appeared in the tenth century B.C. when the first regulation related to public loss was issued in Rhodes in 916 B.C. That regulation required the distribution of losses, incurred as a result of jettisoning part of the cargo into the sea, among the owners of the goods transported on that ship.

Some of the old forms of Cooperative Insurance also appeared in China about 5000 years ago when some of the families who lived on floating houses agreed to tie their houses and adjacent stores together so that if one house was exposed to the risk of drowning, they would all share the losses.

In old Rome, some societies helped the families of their military members when one of them died. The society provided the necessary amounts of money and salaries to those who remained alive in return for a subscription fee that every member paid.

The concept of insurance passed on to the Phoenicians, then to the Lombardians in north Italy. Pools were established and funded by merchants who owned goods in order to reduce the losses which any merchant might be exposed to while transporting their goods by sea.

Ibin Khaldoon, in his introduction, mentioned some of the oldest forms of Cooperative Insurance practiced by Arabs before Islam. He stated that Arabs practiced insurance of properties in many different forms. During the winter and summer trips, members of caravans agreed among themselves to compensate, from the profits of the trip, anyone of them who might lose a camel during the trip. Each member paid a share in proportion to his profits or his capital in the trip according to the condition. They also agreed to compensate those whose goods remained unsold or destroyed because of the death of their camels.

Other forms of old cooperative insurance were practiced by groups of merchants who imported or exported overseas. They agreed to establish a Cooperative Society or establish an agreement, whereby members compensated anyone who suffered loss in his capital. Their motivation was to cover the risks, related to their capital and income, to which they were exposed at any stage of transporting their commodities. Every member asked for compensation from the

group. At the same time he shared in compensating the victims. In this way, members participating in this insurance exchanged insurance against each other's risks.

Simple Cooperative Insurance developed to an advanced stage on which Islamic Insurance Companies were established. This is called Advanced Cooperative Insurance. In this kind of insurance, specialized companies manage Cooperative Insurance on a contractual basis which requires mutual obligations between the company and its contracting parties. This will be discussed in more detail in the next chapter.

4. Characteristics of Simple Cooperative Insurance

In light of the previous section which discussed definitions of this kind of insurance, we can summarize its characteristics as follows:

1. It is a consensual contract, which includes obligations and acceptance. Each policyholder has two qualities: as a policyholder and as an insurer to his colleagues in the Cooperative Insurance Fund. He is an insurer to others through the amount of money he pays when he participates in the insurance. He is a partner and a shareholder in the amount of money from which indemnity is paid. He himself is a policyholder because by participating in the insurance, he becomes a beneficiary. Thus, he has the right to receive an indemnity for the loss he incurs.

2. The Insured themselves manage Cooperative Insurance and not an independent party .

3. It is a contract of donation of a special kind, and it is one form of *Takaful*. Cooperative Insurance, in its simple form, does not aim at generating profit for the policyholders. Its aim is to establish cooperation among policyholders to mitigate the impact of losses they incur. Therefore, its aim is not profit either under hidden or declared intention.

4. Premiums which the policyholders pay remain as their own property. Indemnities to the victims are paid from this fund . Any surplus will be repaid to the policyholders (the Insured).

5. The scope of its application in practical life is little because the losses it covers are limited, and the groups exposed to them are also limited, such as traders and merchants.

5. <u>Legitimacy of Simple Cooperative Insurance</u>

There is no disagreement among Moslem Sharia scholars regarding the permissibility of this kind of insurance and the legitimacy of practicing it. The second Moslem Scholars Conference held in Cairo in the year 1385 A.H. (1965 AD), the seventh Moslem scholars conference held in 1392 A.H. (1972 AD), and the Islamic Jurisprudence Council in its first session held in Mecca on 10 Shaban 1398 A.H. have all given a legal advisory opinion permitting this kind of insurance. The latter stated: "The Council has unanimously approved the decision of the High-Ranking Scholars Association in Saudi Arabia, permitting Cooperative Insurance instead of Commercial Insurance."

The Council based its decision on the following points :

1. Collective Insurance is one kind of contract of donations which aims by authentic cooperation to fragment risks and cooperate in bearing responsibility when disasters occur. This is carried out by a group of individuals who contribute an amount of money which is designated to indemnify the person who suffers losses. Policyholders in Collective Insurance do not seek to have benefit or profit from the money others have contributed. What they seek is to distribute the risks among themselves and to cooperate in assuming damages.

2. Cooperative Insurance does not include usury. Insurance policies are not usurious, and premiums are not used in usurious transactions.

3. Cooperative insurance does not include gambling, *Gharar*, and ignorance. The fact that policyholders do not know the specific amount of indemnity does not bring any harm on them because they are donators.

Dr. Wihba Al Zuhaili says," There is no doubt that Cooperative Insurance is permitted in Islam because it is part of contracts of donations and is considered cooperation for righteous deeds. Every subscriber pays his or her subscription willingly to mitigate the impact of risks and recover damages which policyholders incur."

The late Mr. Mohammed Abu Zahra said," The first method (Cooperative Insurance) is permissible and legitimate categorically and without any suspicion whatever the insured risk is."

He also said about Cooperative Insurance, "There is no doubt that this kind of insurance is considered cooperation for righteous and pious deeds and is an application of God's word "Cooperate for righteous and pious deeds and do not cooperate to do evil and aggression."

In this way, voluntary cooperation and compulsory government cooperation are equal because it is a partnership among those who benefit from it. Policyholders are the Insured on condition that gain is legitimate without any doubt."

The late Mr. Mustafa Al Zarqa said," There is no doubt that non-profit insurance such as pure Cooperative and Advanced Mutual Insurance is permissible according to the perspective of the Islamic *Sharia*. Insurance of property or liabilities or what is called life insurance are all equal in this type of insurance. I do not think or know of any *Sharia* scholars or any of its contemporary jurisprudents who disagree with this. All of them declare their support of Cooperative Insurance.

In his book **"Insurance Contracts**", Dr. Sa'id Sharaf Eddin says, "One of the insurance systems based on cooperation legally and realistically is Cooperative or Mutual Insurance, which is almost unanimously considered legal and lawful no matter what kind of risk is insured. This is because it is based on the principle of cooperation for righteous deeds which *Sharia* commands. Therefore, it deserves to be a general insurance system.

In addition to the fact that this system applies the concept of utmost good faith in insurance without including any reasons that prohibit it, it achieves the intended goals of insurance, and especially security. It also fulfills the rest of the legal economic functions of insurance such as establishing capital.

In addition to the evidence which the Jurisprudence Council derived, there is more evidence mentioned by scholars in their conclusions about the legitimacy and permissibility of Simple Cooperative Insurance. Some points of evidence are :

1. All legal evidence permits Cooperative Insurance, as God says in the Holy Quran, "Cooperate for good and pious deeds and do not cooperate to do evil and aggression." God also says, "Do good deeds so that you may succeed." In the *Hadith* we read," Believers, in their mutual love and empathy towards each other, are like one body; if one member suffers, the rest of the members will look after it and protect it." Also, "Anyone who relieves the anguish of a believer, God will relieve his anguish during Resurrection Day. Whoever helps a person in a difficulty, God will help him in this life and the afterlife. Whoever gives shelter to

a Moslem, God will shelter him in this life and in the afterlife. God will help a worshipper when the worshipper helps his brother." Another *Hadith* says, "If *Al Ashariyeen* lacked supplies during a raid or their families lacked food in the city, they gathered what they had in one garment and divided it among themselves equally; then they are part of Me and I am part of them."

These verses and similar texts call for cooperation among individuals, doing good to them, and sharing in mitigating their pain and damages. All of these are achieved by Cooperative Insurance, which offers help to the person who faces a disaster bodily , financially , or liability . This is done by sharing in covering the financial consequences which his brothers who are participants in the insurance offer to him as donations from them.

2. The system of "*Akila*" in the prophetic tradition says," If someone kills someone else by mistake, he has to pay compensation (blood money) , which is usually distributed among the members of his tribe (*Akila*).

   The conclusion is that the members of his tribe (*Akila*), by the obligation of the *Sharia*, cooperate to cover the consequences of the incident equally. Each one of them is the Insured and the insurer at the same time. According to *Sharia*, they cooperate among themselves against the risk of killing someone by mistake. The concept on which the *Akila* system is based requires the distribution of the financial obligations in the incident of killing someone by mistake by means of binding donation. It is the same idea of Cooperative Insurance based on restoring the consequences of disasters and risks someone by means of binding donations.

3. The aims of *Sharia* studies are to meet the interests of the worshippers of God. No doubt, there is great benefit and interest in Cooperative Insurance which is available to all those who participate by means of the financial coverage of the consequences of disasters and accidents which befall them as mentioned above.

CHAPTER TWO

Advanced Cooperative Insurance as an Islamic Alternative to Commercial Insurance.

1. The Concept of Advanced Cooperative Insurance .
2. The Origin and Development of Advanced Cooperative Insurance.
3. The Elements of the Advanced Cooperative Insurance Contract.
4. Jurisprudential Adaptation of Advanced Cooperative Insurance.
5. Qualities of Advanced Cooperative Insurance.
6. Functions of Advanced Cooperative Insurance.
7. Types of Advanced Cooperative Insurance.
8. Legitimacy of Advanced Cooperative Insurance.
9. The Difference Between Simple and Advanced Cooperative Insurance.
10. Legitimate Restraints for the Practice of Advanced Cooperative Insurance in Islamic Insurance Companies .

1. The Concept of Advanced Cooperative Insurance

The purposes for Cooperative Insurance in its advanced form are that the number of the Insured in Simple Cooperative Insurance will be limited, and that each person will know one another. If their number increases and the insured risks become of several types , then another body or company should run the insurance operations as an agency for fixed fees. This body should be the insurance companies. Because the contracts which constitute Cooperative Insurance are of several types and intertwined, it is justly called Advanced Cooperative Insurance.

Accordingly, Advanced Cooperative Insurance can be defined as **"a collective insurance contract, whereby its subscribers are committed to pay a specific amount of money as a donation to indemnify the victims on the basis of *Takaful* and solidarity, when the risk actually occurs. Its insurance operations are run by a specialized company, as an agency for fixed fees."**

The subject of the contract involves the commitment of all the Insured to bear the consequences of the risk that may befall any of them and pay the premiums required on the basis of donations. Therefore, it is a contract or agreement based on *Takaful* and solidarity to distribute the risks and restore the loss.

The role of the insurance company in Advanced Cooperative Insurance is to run insurance operations by underwriting and management because the Insured themselves cannot do that due to their large number.

The insurance company makes contracts with the Insured and collects the premiums. Then it indemnifies the victims with what is due to them according to specific rules and criteria. It also carries out all the necessary work required by the insurance operations. The company does all of that as an agency for the Insured for fixed fees. It writes individual contracts with each person insured, and thus commits itself to indemnifying them, either in full or in a large percentage, for the damages which befall them. It does that on behalf of as well as for the Insured.

The insurance premiums collected from the Insured should be sufficient to cover the operational costs, to pay indemnities, and to establish the different kinds of reserves needed.

If premiums collected from the insured parties are not sufficient, then the deficit will be covered from the shareholders' money on the basis of a free interest loan. If the company has a reserve balance from the surplus profits of the premiums, then the deficit will be covered from it.

2. The Origin of Advanced Cooperative Insurance

After Cooperative Insurance had been approved as a solution and alternative to Commercial Insurance as mentioned above, dealing with it had to be developed and promoted to the level necessary for Commercial Insurance.

During the last few decades, a lot of successful efforts have been made, which resulted in establishing Islamic Insurance Companies that operate on the basis of Cooperative Insurance but in an advanced way as previously mentioned.

The motive for the appearance of Cooperative Insurance, on which Islamic Insurance Companies were established, was that Cooperative Insurance in its simple form is feasible and appropriate when its subscribers are limited and know each other. This is also true if the insured risks are specific and limited, as in cases such as motor accidents, fires, or flood .

If the number of policyholders reaches thousands and risks become varied to include many types, it becomes necessary for an agency to manage Cooperative Insurance by underwriting and management . This agency is the insurance company.

Credit should be given to the Islamic Banks which had a distinctive and effective role in establishing, supporting, and caring for Islamic Insurance Companies and helping them to succeed. Many of these companies originated from Islamic Banks. In addition, Islamic Banks insure their properties and the properties of their customers in these companies. Furthermore, Islamic Insurance Companies deposit and invest their money in the Islamic Banks. Some of the most well-known and oldest Islamic Insurance Companies are the following:

1. The Sudanese Islamic Insurance Company. It was the first established Islamic Insurance Company. It was founded in Khartoum in 1399 A.H. (1979 A.D.) by the Sudanese Islamic Faisal Bank.
2. The Arab Islamic Insurance Company. It was founded in Dubai in 1399 A.H. (1979 A.D.) by the Dubai Islamic Bank.
3. The National Cooperative Insurance Company. It was founded in Al Riyadh, Saudi Arabia in 1981 A.D. by a royal decree. It is a 100% government-owned company.
4. The Islamic Insurance and Reinsurance Company, which was founded in Bahrain in 1405 A.H. (1985) A.D.).
5. The International Islamic Insurance Company, which was founded in Bahrain in 1412 A.H. (1992 A.D.). The Islamic Bahraini Bank played an important role in its establishment and in investing its funds.
6. The Islamic Insurance Company p.l.c. which was founded in Jordan in 1416 A.H. (1996 A.D.) by the Jordanian Islamic Bank.

3. The Elements of the Cooperative Insurance Contract

The cooperative insurance contract consists of the following elements:

1. **The Insured:** The insured party, whether a person or a company.
2. **The Insurance Company:** The insurer. It enters into the insurance contracts with the Insured on behalf of all the other subscribers in Cooperative Insurance, on the basis of an agency for fixed fees.
3. **The Insured Risk:** The contingent future event. A contingent event may or may not happen. The occurrence or non-occurrence of the event does not depend on the will of either party to the contract (the Insured and the insurer). It all depends on fate, such as the flood affecting the insured goods or the insured house catching fire.
4. **The Premium:** The commitment of the Insured. This is the subscription which the Insured pay to the insurer according to the insurance contract.

The amount of the premium is determined by an agreement between the insurer and the Insured. There is a close relationship between the premium and the value of goods or property insured on the one hand and the insured risk on the other hand. Cooperative Insurance Companies set the amount of the premium on the basis of the agreed-upon amount covered so that the premium increases or decreases along with the value of the amount covered.
Cooperative Insurance Companies also set the amount of the premium on the basis of the insured risk and its types. If the risk increases, the premium increases and vice versa. In addition, these companies take into consideration the period of insurance when specifying the premium.

The premium is the amount of money which is agreed on when the insurance contract is entered into. This is what is practiced in Cooperative Insurance Companies.

5. **The Amount Insured:** The commitment of the insurer which is the maximum amount which the insurance company will pay when the contingent event insured against occurs.

In accordance with the Cooperative Insurance Contract, the insurance company promises to pay to the Insured or to the Beneficiary whom the Insured names the amount covered when the insured risk occurs. This payment is compensation for the premiums which the Insured pays to the insurance company. The amount covered is a commitment and obligation of the insurance company. Sometimes the amount is contingent, and sometimes it is donated for covering future unknown incidents.

If the insured risk is not realized, the amount covered is a contingent commitment, as is the case of insurance against damages in its two parts.
The first part is insurance against property such as fire. The second part is insurance against third party liability. If the insured risk does not occur, the amount covered will be contingent and an obligation of the insurance company.

If the insured risk occurs in the future but at an unknown time, the amount covered will be a commitment and an obligation of the insurance company and donated for covering future unknown incidents, as is the case in Islamic Insurance for *Takaful* and investment.

In this case the insured risk will certainly occur but at an unknown time. Therefore, the amount covered is an obligation of the insurance company for an unlimited time. As for the amount of the insurance, the insurance company is committed to paying what the contract between it and the Insured stipulates in compliance with the insurance rules and regulations in effect in the country where the insurance company operates.

4. Jurisprudential Adaptation of Advanced Cooperative Insurance

Cooperative Insurance includes a number of contracts which intertwine in a complementary way to realize and fulfill the insurance operation. They are:

First, the Collective Insurance Contract:

It is represented by cooperative agreement which brings together the Insured. Through this contract, a contractual relationship is established among the Insured based on cooperation, mutual sacrifice, and commitment to giving and receiving.

Second, the Gift Contract:

Under this type of contract the legal relationship, which is established among the Insured because of the collective insurance contract, is in the form of a donation. Every Insured is a donator of the amount due from him for the indemnities which are paid to the victim. When he has an accident or a contingent event occurs, others donate to him because of the indemnity he gets when damage befalls him.

Third, the Agency Contract:

This contract has two forms. Under the first form, a legal relationship is established between the insurer as an agent on the one hand and all the Insured as the principal party on the other hand. According to this contract, the insurance company runs and manages insurance operations on behalf of the Insured. It accepts the subscriptions of new members; it collects premiums from the Insured; and it is responsible for paying indemnities to the beneficiaries on behalf of the rest of the Insured. In return for running the insurance operations, the company receives fees which are agreed upon and specified before the beginning of every fiscal year.

The second form of the Agency Contract serves as an agent between the Insured on the one hand and those who represent them in monitoring the work of the insurance company while it is carrying out its functions on the other hand, whether those who represent the Insured are selected from them or from others. In some countries in which the Companies Act does not allow the Insured to be members in the board of the insurance company, the alternative is to assign another company to carry out that responsibility as an agency.

In the Islamic Insurance Company in Jordan, for example, the Legal Supervisory Commission carries out this role by becoming a representative of those who do not have a representative.

Fourth, the Mudarabah Contract:
Under this form of contract the insurance company invests the available surplus from the premiums as a Mudhareb. The Insured are the employers, and profits are shared among them at the percentage agreed upon on condition that the investment is carried out in legitimate ways.

After the profits from Mudhareb have been distributed, the company's share is added to the shareholders' account. Also, the Insured's share is added to the total insurance premiums which belong to them.

Fifth, the Guaranty Contract:
This contract applies when the total shares of the Insured in the insurance premiums is not sufficient to pay their share of the indemnities due to the beneficiaries . The company acts as a guarantor of the Insured and guarantees all the financial commitments due to the beneficiaries from the company's money as a free interest loan. The company then collects the amount loaned to the beneficiaries from the Insured at a later stage .

5. Qualities of Advanced Cooperative Insurance

The following qualities distinguish Advanced Cooperative Insurance from Simple Cooperative Insurance. The qualities of Simple Cooperative Insurance were covered in the first chapter of this book. The most important qualities of Advanced Cooperative Insurance are:

1. Advanced Cooperative Insurance is a collective insurance contract which is implemented by authorization from the Insured. The Cooperative Insurance Contract connects all the Insured so that every one of them is the Insured and the insurer at the same time. He is the Insured because he is a beneficiary. He has the right to be indemnified for the loss which may befall him if the risk occurs.

   He is also the insurer because of the premiums which he pays as a subscriber to the insurance. He becomes a partner because of the amount of money which is paid to indemnify others. He contributes from his own money to the indemnifications as a donation.

   An agency contract of this kind of insurance is entered into when the insurance company begins the insurance operations with the premiums paid on behalf of the Insured as fixed fees.

   Because the number of the Insured (subscribers in the insurance) is large, it becomes impossible for them to run the insurance company. Therefore, another specialized agency should operate the insurance. The agency's task should be to enter into contracts with the Insured, collect insurance premiums, and pay indemnity to the injured according to specific criteria and in a scientific, technical, and accurate manner. This specialized agency is the insurance company.

2. Cooperative Insurance does not only protect against the consequences of the risks in a cooperative way, but it also goes beyond that to earn profits. Profit is an intended aim in Cooperative Insurance. Earning profit does not negate the cooperative quality if it is done according to specific restraints which make it legitimate.

The most important channels leading to produce legitimate profit in Cooperative Insurance are:

a. Investing the funds not used to pay claims in legitimate productive projects Mudareb . Then profits are divided between the insurance company as Mudareb and the Insured who provide the capital.
b. Investing the policyholders' money in legitimate ways. The insurance company has two separate financial accounts. The first is the account of the Insured mentioned in (a) above (the account of policyholders). The second is the shareholders' account which constitutes the capital of the insurance company, which is a shareholding public company whose ownership belongs to the shareholders in its capital, each one according to the number of his shares. The profit is earned by investing the shareholders' funds which belong to them.
c. The fixed fees which the insurance company receives from the Insured's funds in return for running the insurance operations as an agency.

3. Cooperative insurance has a wide range of Insured and different types of insurance in practice . It is the Islamic substitute for Commercial Insurance.

4. The premiums paid by the Insured remain their own property after deducting all financial fees which the insurance operations require, such as paid claims , the costs of Reinsurance, and established reserves.

5. Technical and cognitive preference: Insurance, in general, is a science by itself. Cooperative Insurance, in its advanced form as a substitute for Commercial Insurance, is new and requires technical skills and specialized knowledge in the field of insurance so that it can be practiced and applied. In addition, it requires knowledge in Islamic Law regarding practical applications related to Islamic Insurance.

   In order for insurance operations to be practiced in the right way, there must be a qualified and legitimate technical staff. When this staff performs their duties efficiently and competently, the company will flourish. Any mistake in the practice and implementation of insurance operations will lead to harmful consequences in the work of Islamic Insurance Companies, financially and morally.

6. Cooperative Insurance is part of what is called donation contracts (those contracts which are based on donations or aid from one party to another). It is not a contract of compensation. What the Insured pay is donated completely or partially to the insured party who encounters actual risks .

> The Insured is indemnified, completely or partially, what is due to him when the incident occurs, from the money that has been donated by the rest of the policyholders. If compensations do not exhaust all the premiums, the donation is complete.

The rule in all of the above, according to Dr. Husain Hamed, is: A donator to a company or to a group of people who have a common characteristic becomes partner with this group if he has the same characteristic . It is similar to a person who donates to students. He deserves to have part of the donation if he wants to study. In this case, he does not receive something in return for or instead of what he gives. But it is said that he deserves part of the donated amount because of the quality of accrual. He donates and then takes a part of the donation. In this case, compensation is nonexistent.

Every insured party is a donator and donated to in a mandatory manner, which the nature of the Cooperative Contract requires. The subject of the contract is the commitment of the Insured to bear all the consequences of the insured losses when they occur, on the basis of donation.

The basis of jurisprudential adaptation for the mutual obligation of donation in the Cooperative Insurance Contract is the rule of obligatory donation of the *Malikiya* doctrine.

Because the Cooperative Insurance Contract falls within donation contracts, *Gharar* does not have any influence in the accrual of compensation. Compensation which is more than the premiums paid by the Insured is not considered prohibited usury because usury exists in compensation contracts only.

It must be mentioned that it is not necessary for every subscriber in Cooperative Insurance to donate all his premiums as compensation to the victims. Instead, it must be to cooperate with others to restore the effects of damage when it occurs.

A subscriber in Cooperative Insurance should not expect the other party (the other subscribers) to offer him compensation when risks befall him. When the donator's aim is donation, his intention is right even if he gets some benefit later on.

The donation intention of the Insured is not affected when the other party (the rest of the Insured) pledges to help the donator (the Insured). A donation remains without compensation even it is one of the mutual donations. Thus , each Insured (donator) has the right to receive his share from the Insurance Surplus which remain from their donations in the Insurance Cooperative Fund according to the following equation :-

$$\frac{\textbf{Surplus designated for distribution X insurance premiums of each subscriber}}{\textbf{The sum of insurance premiums}} = \textbf{Subscriber's share}$$

This is because each donation is not a compensation of the other donation. Instead, each donator donates with the intention of donation without consideration of the other donation as compensation for his own donation.

In the Jurisprudential Introduction of the late Mustafa Al-Zarqa, he said about categorizing contracts: "Eight- regarding exchanging rights: contracts are categorized into three categories…..(c) contracts which have the meaning of donation in the beginning and the meaning of compensation in the end as if you give a loan and a guaranty, and a donation on condition of compensation….the donator who donates on condition that he will be compensated for his donation is also a donator of what he gives."

In his book "**Islamic *Sharia* Judgment on Insurance Contracts**", Dr. Hussien Hamed Hasan says: "The practical formula which Islam legitimized for cooperation, solidarity, and sacrifice is donation contracts in which neither the donator nor the one who sacrifices seeks financial compensation for what he has given."

7. Cooperative Insurance is suitable as a substitute for Commercial Insurance in all its types, but different in its substance.

6. Functions of Cooperative Insurance

Functions of insurance are the benefits, fruit, and the positive effects which Cooperative Insurance produces to the individuals and groups. The most important functions are:

1. It achieves security for the Insured: The Insured against a certain risk will be secured and will not be affected by its results because everyone cooperates to deal with the risk , when it occurs, with the small amount that each one pays. In this way, they avert aggravated damages which would have befallen on the victim had it not been for this cooperation.

Cooperative Insurance gives security to the Insured as they go about their normal activities and protects them from the possibility of being vulnerable to various risks. In case the danger occurs, its results do not affect the victim alone, but they are distributed among the Insured. Therefore, instead of the results of the disaster being borne by the victim, the other Insured bear the results with him by solidarity and *Takaful*. This is done on the basis of donating part of the money from the Cooperative Insurance Fund, which contains all the premiums of the subscribers in the different types of insurance. This Fund is the property of the Insured.

If properties are insured and the risk occurs, the insurance company gives to the Insured the compensation agreed upon between them in the insurance contract. This compensation enables the victim to restore the results of the damage and losses which befell him. In case of third party liability, the insurance company gives the Insured, when the danger occurs, the necessary compensation in accordance with the insurance contract in order to indemnify him of the amount of money he paid because of his civil liability for the accident.

The same procedures apply to insuring people. The insurance company gives the Insured the compensation to which it committed itself according to the insurance contract signed by both of them.

Dr. Ahmed Al-Saeed Sharaf Eddin says: "In addition to the fact that this system applies the concept of insurance in utmost good faith and in such a way that is void of reasons which necessitate prohibition, it achieves the intended aims of insurance and especially the quality of security, as well as the other legitimate, economic aims of insurance such as establishing capital."

2. It earns legitimate gain: Cooperative Insurance is a legitimate way for earning gain and profit to the Insured, to the insurance company which runs the insurance operations on the basis of an agency for fixed fees, and to the employees of the company.

As for the Insured, they will earn profits because the insurance company invests what is available of the insurance premiums in legitimate ways as a Mudareb . Profits which are earned are divided between the company and the Insured, since they are the proprietary, according to the percentage agreed upon beforehand in the contract.

As for the insurance company, its income is earned from the following sources:

(a) The profits of the shareholders' funds which are invested in legitimate ways.
(b) Fixed fees as an agency, which the company receives in return for running the insurance operations.
(c) Its share from the profits of Mudarabah in its capacity as a Mudhareb .

As for the employees in the insurance company, their work in the company on the basis of employment is considered a source of legitimate gain because their work is legitimate as a principle and in its nature.

3. Islamic Insurance Companies are considered one aspect of the appropriateness and usefulness of the esteemed Islamic Sharia for all ages.

Although insurance is recently established, the provisions and principles of *Al-Sharia* and its jurisprudential rules are able to incorporate it and carry it out in a legitimate manner which guarantees justice and balance among all those who participate in it. Thus, insurance will not include any form of selfishness and exploitation.

Islamic *Sharia* is able to keep pace with recent events. It has the ability to deal with everything new and to pass legitimate judgment appropriate for it. Consequently, Cooperative Insurance becomes the substitute for Commercial Insurance. Thus, it opens wide horizons for purposeful study and research. In addition, it contributes to the activation of the jurisprudence of business transactions and transfers it from its theoretical form to its practical reality.

4. It contributes to the building and prosperity of the economy and to the growth of economic enterprises: The establishment of Islamic Insurance Companies and carrying out the functions given to them contributes effectively to the development of the economy by:

(a) developing and investing the shareholders' and the Insured's funds in legitimate ways;

(b) recompensing losses by maintaining the things which are insured, guaranteeing the performance of the functions of those things and preventing them from being ineffective or unproductive items. When the insured risk occurs, the insurance company pays the Insured the compensation agreed upon in the contract to enable him to replace the damaged items by other items which can perform the same functions;

(c) creating many job opportunities, and thus limiting unemployment;

(d) finding means of respectful living in case of illness and disability;

(e) maintaining insurance funds and savings in the country where Islamic Insurance Companies are established and investing these funds for the benefit of the citizens.

Dr. Mohammad Shawki Al-Fanjari says: "This kind of insurance (i.e. Cooperative Insurance) fulfills many aims and interests which jurisprudential principles command. God says: "Cooperate for good and righteous deeds." It also fulfills the command to watch out. God says: "Be on the alert." In addition, it fulfills protection against harm and adversity, which the jurisprudence principles command: "No harm to you and no harm from you."

5. Cooperative Insurance Companies complement the Islamic economic cycles by supporting Islamic financial banks and institutions. These institutions can not fulfill their economic mandate completely except by dealing with the Islamic Insurance Companies.

7. Types of Cooperative Insurance

Cooperative Insurance covers the following types of insurance:

First, insurance against damages, which includes two types:

The first type:
Property Insurance. This is an insurance against perils which may inflict damages on specific things, such as insurance against risks of fire, theft, comprehensive householder insurance, insurance of glass plates windows, and comprehensive insurance of vehicles to cover the own damage of vehicles.

The second type :
Liability Insurance It means to compensate the Insured for the sums he gets legally liable to pay others in compensation of damages the claimant has subrogation rights. The insurance company pays compensation to the Insured to compensate for damages of the person who suffers. This type of insurance is divided into two kinds.

The first kind:
Civil Liability Insurance. It includes liability insurance of owners of vehicles against others, liability insurance of factory, institution, and company owners towards others while on their premises, and liability insurance of contractors regarding damages which may befall others while executing their contracts .

The second kind:
Vocational Liability insurance. It includes liability insurance of professionals, such as doctor or pharmacists, against their legal responsibility towards others as a result of practicing their professions.

Second: Assurance
Its aim is to insure against risks which threaten a person's life, body, or his ability to work. It includes insurance of personal accidents such as when a person becomes unable to work either temporarily or permanently, insurance of work accidents, insurance of medical treatment expenses, and the Social *Takaful* System (which is known as Life Insurance in Commercial Insurance.)

Third: Insurance of transport risks

This type of insurance is divided into three kinds:

The first kind: Marine Insurance, which is the insurance against risks of transport by vessel, whether insurance of goods or Hull Insurance .

The second kind: Land Transit , which is the insurance of goods against risks of land transport.

The third kind: Air Cargo , which is the insurance of goods against risks of air transport.

Fourth: Engineering Insurances
They include insurances against risks during the construction and erection works the contractors may face, insurance of plant equipment , construction machinery , and insurance of computers and electronic equipment .

8. Legitimacy of Cooperative Insurance

Scholars who are interested in insurance issues differ in their views regarding the legitimacy of Cooperative Insurance in its advanced form. Most scholars have permitted and legitimized it. Others have prohibited it. Following are the views of both parties and our point of view:

First: Those who allow Cooperative Insurance
Chapter two discussed Simple Cooperative Insurance and concluded that there was no disagreement among scholars regarding permitting and legitimizing it. Evidence is taken from track record. Advanced Cooperative Insurance is Simple Cooperative Insurance which is managed and run be a specialized company on the basis of agency for fixed fees, as was discussed in the first part of this chapter.

Therefore, all evidence which is used to support the legitimacy of Simple Cooperative Insurance is evidence for the legitimacy of Advanced Cooperative Insurance according to most scholars who legitimize Cooperative Insurance.

This view was confirmed by the Islamic Jurisprudence Council in its first session held in Mecca Mukarramah on 10 Shaban 1398 A.H. In its fifth resolution, it says: "The Jurisprudence Council unanimously decided to approve the decision of the Council of Higher Scholars (i.e. in Saudi Arabia) regarding legitimizing Cooperative Insurance instead of Commercial Insurance. The Council decided that Cooperative Insurance should take the form of a Cooperative Insurance Company.

Many scholars who are interested in insurance issues have been quoted to say that Cooperative Insurance is legitimate. Some of these quotes are:

1. Dr. Hussien Hamed Hassan, in his book **"Islamic Sharia Judgement on Insurance Contracts"** says: "Cooperation and solidarity to restore the results of risks and compensate people for damages they incurred is an act compatible with the aims of Sharia. However, this restoration and compensation should be carried out by legitimate means.

   The practical formula which Islam legitimized for cooperation, solidarity, and sacrifice is donation contracts, whereby both the one who cooperates and the one who sacrifices do not seek profit from their cooperation and solidarity nor do they ask for financial compensation for what they have offered.

Cooperative Insurance and Social Insurance both apply and realize the practical formula which Islam legitimized for cooperation, solidarity, and sacrifice.

These two types of insurance are founded on cooperation, solidarity, and donation without any desire to invest money and seek profit. In our opinion, they are both considered a rightful application of the theory of insurance because they are accurate, organized cooperation among a large number of people who are all exposed to the same risk. If anyone of them is exposed to the risk, all of them cooperate to deal with it with little sacrifice which each one of them contributes . In this way, they avert grave damages which befall that person."

Dr. Hussien Hamed said in another part of his book, "Writers, with whom I have been acquainted, who wrote that insurance is allowed, have all agreed that Mutual (Cooperative) Insurance which is practiced by Cooperatives is legitimate. We agree with these researchers in their judgment. We have decided that both Social Insurance and Mutual (Cooperative) Insurance are not prohibited because the basis of prohibition in insurance contracts is *Gharar*. *Gharar* affects compensations and not donations, according to jurisprudents. These two types of insurance are based on donation and do not seek profit. Thus, they do not fall within that prohibition.

2. The late Mr. Mustafa Al-Zarqa says in his book **"The System of Insurance"**: "There is no doubt that Mutual (Cooperative) Insurance struggles against the profitable exploitation (i.e. commercialism) of insurance companies. It is the only alternative which may replace Commercial Insurance.

Governments in Islamic countries should encourage Cooperative Insurance so that it will expand and spread. It is the best type of insurance and is void of suspicion and defects. It is founded on a cooperative, technical basis. It also uses accurate statistical systems and the Law of Large Figures which profitable (Commercial) insurance companies use.

Furthermore, it meets the needs of society regarding economic activities, vital endeavors, and social needs.

3. In his book "**Insurance Contracts**", Dr. Ahmed Sa'id Sharaf Eddin says: "One of the insurance systems based on cooperation legally and realistically is Cooperative or Mutual Insurance which is almost unanimously considered legally accepted no matter which risk is insured. It is based on the principle of cooperation for righteous deeds, which the Sharia commands. Therefore, it is worth becoming the general insurance system.

   In addition to the fact that this system applies the concept of insurance of utmost good faith and in a way void of reasons which may prohibit it, it also achieves the aims of insurance, especially security, as well as the rest of the economic functions which are legitimate for insurance such as establishing capital.

4. Dr. Mohamed Shawqi al-Fanajri says: "Sharia jurisprudents agreed on two types of insurance: Cooperative and Government Insurance. The latter has two forms: the pension and payroll system and the social security system. Cooperative Insurance is a kind of treatment based on cooperation and donation. It is, therefore, void of compensation completely. If compensation does not exist in this type of insurance, then bribes, *Gharar*, and usury do not exist either."

5. In his book "**Islam's Judgment on Insurance**", Dr. Abdallah Naseh Alwan says: "The establishment of cooperative Takaful institutions in society is one of the basic rules of Islam and one of the general aims of legislation. However, the system of *Takaful* does not apply to these institutions from Islam's perspective unless the following conditions exist:
   (a) The subscriber should pay his share from his own money as donation for his brothers.
   (b) Investment of savings should be done by legitimate means only.
   (c) A person cannot donate anything on the basis that he will be compensated if an accident occurs. Instead, he will be compensated from the group's money according to his loss or a percentage of his loss according to what is available of that money.

   If these conditions are met in any *Takaful* cooperation among unions and companies in our countries, then this cooperation is considered one of the principles of Islam. Moreover, Islamic Sharia will bless it and will consider anyone who has participated in it a merciful, sympathetic Moslem who will be rewarded abundantly on Resurrection Day.

6. Dr. Al-Saddik Mohammad Al-Amin Al-Dareer says:
   "I do not think there is any disagreement regarding the permissibility of Cooperative Insurance. It is a kind of work to which the Sharia calls. The person who participates in it will be rewarded because it is cooperation for righteous and good deeds and because God commanded it. Every subscriber in this system pays an amount from his money by his own choice and satisfaction to establish a capital for the company. This capital is used to help any needy subscriber in the company. Every subscriber is actually a donator who participates in meeting the needs of other subscribers according to the manner agreed upon by the subscribers. This type of insurance is legitimate and legally permitted whether it is Marine Insurance or Land Insurance or Life Insurance or insurance against accidents or damages."

Second: Those who prohibit Cooperative Insurance and their evidence

A small group of scholars prohibit Cooperative Insurance in its advanced form. They base their judgment on the following evidence:

1. **Cooperative Insurance includes usury**

   A subscriber in this type of insurance pays a little amount of money (the premium) in the hope that he will get back more than what he pays if the insured accident occurs. This payment is done according to a binding contract in the form of compensation. Accordingly, this type of insurance is based on *Nasi'a* (on credit) and on *Fadil* (surplus) usury, similar to Commercial Insurance.

   As for *Nasi'a* usury, there is a time difference between the payment of the premium and the receiving of compensation if the accident occurs. There is no barter to both usurious compensations in the contract.

   It is based on *Fadil* usury because the subscriber pays a little amount and received a larger amount. Or, he may pay more and receive less. Therefore, there is no similarity between the two cash compensations, and this is *Fadil* usury.

2. **Cooperative Insurance is based on gambling**

   Since the basis of this type of insurance (like other types) is contingency, it is based on luck. Subscribers who pay premiums do not know whether the insured accident will occur or not. Instead, a subscriber pays his amount of money as a venture in order to have profit if he has an accident. Or he may lose if the accident does not occur, and this is the essence of gambling.

3. Cooperative Insurance includes *Gharar*

According to all scholars, Cooperative Insurance in its advanced form is based on excessive *Gharar* which corrupts contracts. Every subscriber pays the necessary subscriptions (premiums), and then the accident does not occur. Therefore, he does not receive compensation for what he paid. He may even pay one premium and then a big accident befalls him. Consequently, he gets vast amounts of money from the insurance fund. This is the essence of *Gharar*.

4. Cooperative Insurance is based on compensations and not on donations. The premiums paid by the subscriber to compensate the one who has an accident are paid according to a binding contract and on condition that he himself will be compensated if he has an accident. No compensations will be given except to the subscribers. Therefore, donation is not included at all. It is only a compensation of money according to contingency.

Third: Our point of view (justification)

Our point of view prefers the evidence of those who legitimize Cooperative Insurance for the following reasons:

1. Their evidence is strong. This is seen in our discussion of the legitimacy of Simple Cooperative Insurance as a basis for Advanced Cooperative Insurance and the evidence presented by those who legitimized it while discussing the legitimacy of Advanced Cooperative Insurance above.
2. The evidence presented by those who prohibit Cooperative Insurance can be used to prohibit Commercial Insurance and not Cooperative Insurance because the essence of the latter distinguishes it from Commercial Insurance as will be seen in the next chapter.
3. Group interpretation has legitimized this type of insurance. The Jurisprudence Council of the Islamic World Association, the Higher Scholars Association in Saudi Arabia, and the *Ifta'* (giving of legal opinions) Council in the Hashemite Kingdom of Jordan have legitimized and approved Cooperative Insurance.

9. The Difference between Cooperative Insurance and Commercial Insurance

Cooperative Insurance is different from Commercial Insurance in the following areas:

First: Regarding the parties to the contract and the ownership of premiums
In Commercial Insurance, the insurance contract is between the Insured and the insurance company as the insurer on its own behalf. Premiums which the Insured pay belong to the company, which use the money in whatever way it desires.

But in Cooperative Insurance the two parties to the contract are the Insured and the insurance company in its capacity as a representative of the Insured. The role of the insurance company in this type of insurance is to make contracts with the Insured and to manage insurance operations and insurance money in the Cooperative Insurance Fund in a legitimate manner on the basis of an agency for fixed fees. Premiums which are collected from the Insured belong to them and not to the insurance company. The available funds are invested for the interest of the Insured. The donated part of the premiums is only the part allocated for the purpose of compensation and establishing technical reserves.

Second: Regarding its goal and aim
In Commercial Insurance, the main goal of the insurance company is to achieve the largest amount of profit. Achieving security is a secondary aim and will come in consequence to achieving profit.

But in Cooperative Insurance the main goal is to achieve security by means of cooperation among the Insured to restore the results of risks which may befall any one of them on the basis of donation. The motive for insurance is cooperation with the Insured to minimize or remove the damage which befalls any one of them when the insured disaster occurs. Therefore, what the injured Insured gets as compensation, he gets it as a donation from the rest of the Insured. The profit will come in consequence to security.

Third: Regarding its legitimacy

According to most researchers in insurance, Commercial Insurance is prohibited while they permitted and legitimized Cooperative Insurance as was mentioned in chapter one. In his book "**Islam and Insurance**", Dr. Mohammed Shawqi Al-Fanjari says: "Contemporary jurisprudents are in agreement regarding the legitimacy of Cooperative Insurance, but they are in disagreement regarding the legitimacy of Commercial Insurance."

Fourth: Regarding the nature of the contract

Commercial Insurance contracts are compensation contracts, while Cooperative Insurance contracts are donation contracts. Commercial Insurance contains usury, *Gharar*, and ignorance, while Cooperative Insurance is void of them. Ignorance and *Gharar* will vanish because Cooperative Insurance contracts are donation contracts.

Dr. Mohammed Shawqi Al-Fanjari says: "Cooperative Insurance is based on cooperation and donation; therefore, it is void of compensation completely. If compensation is not included in it, then ignorance, *Gharar*, and usury will vanish.

Fifth: Regarding the mechanism of investing insurance money

Insurance money in Commercial Insurance is invested on the basis of usury. But in Cooperative Insurance, investing insurance money is carried out only by legitimate ways which are void of usury.

10. Legitimate Restraints for the Practice of Cooperative Insurance in Islamic Insurance Companies

Islamic Insurance Companies practice Cooperative Insurance according to the following principles:

1. Commitment to the regulations of Islamic Sharia in managing insurance operations and in investing what is available of insurance premiums. They also do not insure properties which are run by illegitimate ways in accordance with the instructions of the legitimate supervisory bodies.
2. Carrying out insurance operations on the basis of Cooperative Insurance which is acknowledged as a legitimate alternative to Commercial Insurance. This includes the three types of insurance: property insurance, liability insurance, and social *Takaful* insurance.
3. Running insurance operations and insurance funds as an independent company on the basis of an agency for fixed fees. These fees are assigned before the beginning of the fiscal year and are paid from the subscriptions of the Insured (policyholders).
4. Separation between the rights of the shareholders in the company in its capacity as managing insurance operations and between the rights of the Insured (policyholders), in such a way that the company's capital, which belongs to the shareholders, is completely separated from the Insured's money according to a special account for each of them.
5. Applying the principle of cooperation and *Takaful* among the Insured. This is done by the company which keeps all the premiums collected from the Insured in one account in order to apply the concept of *Takaful* among them. In this way, damages which befall any of the Insured can be restored from this account.
6. Investing whatever is available from the insurance Mudareb and the Insured will be the proprietary. Profits between the two parties will be determined before the beginning of the fiscal year.
7. Achieving the principle of justice between the shareholders and the Insured and among the Insured themselves. As for achieving justice between the shareholders and the Insured, the following points are taken into consideration:

   (a) The shareholders present the capital of the company to declare its legal status in order for it to carry out the insurance operations. The Insured pay the subscriptions (the insurance premiums).
   (b) Shareholders pay all the general expenses, such as salaries, rent, and other administrative expenses, in addition to the capital expenses related to fixed assets.

(c) The Insured receive compensations due to them from the Cooperative Insurance Fund according to the conditions stipulated in the policy.

(d) The share-holders have the right to receive all the profits from investing the capital in their capacity as its owners.

(e) Claims (compensations), reinsurance expenses, and everything related to policies will be paid from the Insured's (policyholders') account.

(f) The legal financial reserve will be taken from the shareholders' entitlements in accordance with the percentages stipulated in the Companies Act on which the company was established. This reserve will be given back to the shareholders at the end of the company's lifecycle.

(g) Technical reserves will be deducted from the shareholders' funds. They will be donated for good works at the end of the company's lifecycle after the company has resettled all its obligations and rights resulting from carrying out insurance operations in accordance with the instructions of the legal supervisory bodies.

(h) Profits due to the shareholders will be distributed according to the percentage which each shareholder owns of the total shares of the company.

8. Islamic Insurance Companies offer financial support to the Insured from the shareholders' money by means of a free interest loan if the premiums collected from the Insured are not sufficient to cover the deficit and if the company does not have a reserve account from the surplus of the premiums in the Cooperative Insurance Fund.
9. They distribute the surplus of the insurance premiums among the Insured because it is their right. This is done according to the criteria of distributing insurance surplus, as will be explained in the next chapter.
10. They lay detailed foundations for every company by a group of experts specialized in Islamic Insurance. They also manage Islamic Insurance Companies by means of trained and equipped technical cadres who have both capability at work and a commitment to the regulations of Islamic Sharia.

CHAPTER THREE

Practical Applications of Cooperative Insurance in the Islamic Insurance Company in Jordan

1. Vehicle Insurance
2. Fire Insurance
3. Comprehensive House Insurance
4. Marine Insurance
5. Personal Accidents Insurance
6. Contractors Insurance
7. Social *Takaful* Insurance

1. Vehicle Insurance

A. Complementary Insurance: Insurance of vehicles, their attachments and parts against damages

This type has three claims:

(1) Basis of Compensation .

(2) Obligations of the Insured .

(3) Other Regulations and Terms Related to the Contract

The First Section

Basis of Compensation

First: Coverage and the Company's Liability Limits

1. Maximum liability of the company in case of sudden destruction of the vehicle is: the amount declared by the Insured for insurance purposes or the market value of the vehicle, whichever is lower (i.e. the estimated market value of the vehicle).
2. Maximum liability of the company for transporting the vehicle to the nearest repair workshop, or for guarding it when it breaks down because of any losses or damages covered by the abovementioned insurance contract is fifty Jordanian Dinars.
3. Maximum liability of the company for the necessary repair which the Insured is allowed to carry out in order to drive the vehicle to the workshop is fifty Jordanian Dinars.
4. Maximum liability of the company for physical and material damages to others will be in accordance to the obligatory insurance system in effect as will be discussed in the second part of this chapter.
5. The insurance contract does not cover moral and psychological damage.

Second: Coverage Limits

1.The insurance company promises to compensate the Insured for the damage or loss which affects the insured vehicle, its attachments, and its parts in the following situations:

(a) If the damage or loss is the result of collision or overturning.
(b) If the damage or loss is the result of fire, internal explosion, burning, lightning, theft, or an attempt of theft.
(c) If the damage or loss is the result of someone else's action.
(d) If the damage or loss is the result of falling or flying objects.
(e) Damages to the vehicle while being towed due to breakdown or failure.

2. The company pays compensation for the damage or loss in cash, or by repairing the vehicle, or replacing any of its attachments, or parts, or spare parts, on condition that the company's responsibility shall not exceed the value of the damaged parts. Following is the depreciation which this contract enforces . If the necessary parts are not available on the local markets, the compensation which the company pays will not exceed the last fixed price of these parts on the local markets. In the case that new parts are bought to replace used parts, or the company has to pay the value of the new part, the Insured pays a percentage of depreciation according to the following rules of depreciation:

Second year:	6% (six percent)
Third year:	12% (twelve percent)
Fourth year:	18% (eighteen percent)
Fifth year:	24% (twenty four percent)
Sixth year:	30% (thirty percent)
Seventh year:	36% (thirty six percent)

This can be illustrated by the following example:
Mohammad insured his Nissan car, a 1997 model. In 1999 he had an accident. A new spare part had to replace the damaged part or the company had to pay Mohammad the value of the new spare part. The value of the new spare part in 1999 was (JD 100). In this case, Mohammad had to pay 12% of the value of the new spare part because of a two-year difference between his 1997 model car and the year when the new spare part was installed. Therefore, the company paid (JD 88) and Mohammad paid (JD 12).

3. (a). When the vehicle breaks down, the company is obligated to pay the expenses needed to guard the vehicle or to transport it to the nearest repair workshop. Then it will have to deliver the vehicle within the country where the damage or loss took place up to the amount mentioned in the liability limits.

   (b). The Insured may carry out the necessary repairs of the damage for which the insurance company is responsible according to this contract in order to drive the car, on condition that:

   (1) the cost of these repairs does not exceed the company's liability (JD 50).

   (2) the repair itself will not increase or cause other damages;

(3) the Insured presents to the company a detailed statement with all the necessary documents and have the vehicle checked within 72 hours.

(4) The company does not object to having repairs carried out at the car dealership or in another repair shop which the Insured chooses with the condition that he pays the additional fees which any other workshop charges.

(5) The vehicle will not be considered total loss unless it is proven that costs of its repairs are more than 75% of its estimated value specified by the Insured for the purposes of insurance. In case of being total loss , compensation will be equal the estimated value or the market value of the vehicle, whichever is lower. In all cases depreciation of the vehicle from the date of insurance until the date of the accident will be subtracted from the value of the vehicle. The company has the right to consider the vehicle as total loss and compensate the Insured accordingly. In this case, the company has the right to possess the wrecked car.

(6) If the damage is partial, and it is proven at the time of the accident that the accident is included in this contract, and that the real (market) value of the insured vehicle is more than the estimated value which the Insured had specified for the purposes of insurance, then the Insured may be guaranteed the difference of the two values (the real value and the value he specified). In this case, he pays his share of the loss or damage in proportion to the difference between the two values as long as he does not violate the depreciation rule mentioned above in the second item of "Coverage Limits".

Exclusions in respect of Limits of Coverage:

The company is not responsible in any case for:

1. Loss that the Insured may incur as a result of using the vehicle, or for any reduction in the value of the insured vehicle, or for any defect, damage, or breakdown which may befall its mechanical or electrical apparatus as a result of using the vehicle.

2. Loss or damages which may affect tires, hubcaps, antenna, wipers, mirrors, and outside accessories except what was the result of an accident covered by this contract.

3. Losses or damages to the vehicle because of excess load, or if the vehicle's load is outside the body of the vehicle in violation of the law, or if the number of passengers at the time of the accident is more than the number permitted by law, on condition that this violation is the main cause of the accident.

4. Loss or damages to the load of the vehicle or the communication apparatus installed in the vehicle such as a telephone, a television, or any other belongings in the vehicle, unless these have been clearly stated in the contract or its endorsements in addition to their insurance value, and the additional premium for them paid.

5. The company is not responsible to pay any compensation for:
   (a) Reduction in the value of the vehicle after it has been repaired.

   (b) Consequential losses or damages which befall the Insured because of an accident covered by this contract, including loss of use of vehicle.

   (c) Moral or psychological damages.

Third: General Exclusions :

1. This contract does not cover loss or damage or accidents of the vehicle outside the geographical area specified in this contract unless otherwise stipulated clearly in a special appendix to this contract specifying the geographical area.
2. This contract does not cover the loss or damage to the vehicle or any of its parts:
   (a) When it is driven by the Insured or any person not holding a driving license for the category of the vehicle and issued according to the Jordanian Traffic Law at the time of the loss or damage.
   (b) When it is driven by the Insured or any person authorized to drive vehicles having the same category, but under the influence of alcohol or drugs.
   (c) When the vehicle is used for purposes other than the purpose authorized by the Traffic Department, which is stated in this contract or in its endorsement , and especially: when it is used for speed testing, or for examining it, or participating in a race, or betting or similar purposes.
   (d) When it is used to tow a broken-down vehicle or otherwise in order to receive fees.
   (e) When the Insured or the driver flees because of a specific act which either committed, or when either one transports persons fleeing from the authorities or smuggled goods or things.
   (f) When the vehicle's load collides with its body or when parts of the vehicle collide against each other.
   (g) When accidents happen to the vehicle because of insufficient care given to the vehicle by the persons responsible to guard it.
   (h) When accidents happen to the vehicle when it is kept by persons responsible for repairing, or servicing, or maintaining it.
   (i) When loss or damage is the result of objects falling from the insured vehicle unless such falling is the result of an accident.
   (j) When the vehicle's load inflicts loss or damage directly on the insured vehicle during loading, unloading, or transporting.

3. If large vehicles, dump trucks, and construction and industrial vehicles are insured, the company is not responsible to cover the loss or damage to the vehicle, cranes, or winches during lifting, landing, running, loading, or unloading them. In addition, the company will not be responsible to cover the losses and damages if the vehicle overturns or is damaged when operating the jack or when unloading.

4. This contract does not cover the loss or damage resulting from a defect in the apparatus of the vehicle or from the inefficiency of its brakes when is proven by expert opinion that it was the cause of the accident unless it was an emergency defect.

5. This contract does not cover the exacerbation of loss or damage resulting from leaving the insured vehicle without guarding it or driving it before the necessary repairs have been carried out.

6. This contract does not cover any responsibility resulting from the agreement of the Insured and/or the contracting party and/or or the driver of the vehicle with any other party without whom this responsibility would not exist.

7. The company is not responsible to pay any amount as compensation which the Insured could have collected from any other person if an agreement has not been made between him and that person.

8. This contract does not cover the loss or damage to the vehicle because any one of the factors below or if these factors contributed to the accident directly or indirectly. These factors are:

   (a) floods, inundation, storms, sandstorms (*Toz*), tornados, volcanic eruptions, earthquakes, hail, or any other natural disturbances.
   (b) Explosions, or atomic or nuclear radiation.

   (c) War, invasion, foreign aggression, military or semi-military operations (whether war has been declared or not).

   (d) Civil war, insurgence, civil and mass insurrection, sit-ins, demonstrations, rebellion, revolution, military coup d' etat, usurping authority, terrorist acts which are committed by a person or persons belonging to a party or organization.

   (e) Confiscating, nationalizing, taking over, losing, or damaging the insured vehicle by the government or any public or local authority.(In all these cases the Insured has the responsibility of proving that the loss or damage is not included in the exceptions).

9. The company has the right to refuse compensating the Insured for the loss or damage to the vehicle or any of its parts according to this contract in the following situations:
   (a) If the Insured or any other person driving the insured vehicle violates the conditions incorporated in the Traffic Law, regarding the assigned speed limit, violating traffic lights, driving in a no-entry area, or driving on a road or pavement forbidden to vehicles.

   (b) If the Insured sells or rents the insured vehicle without obtaining a written agreement beforehand from the company.

Fourth: It is worth mentioning that since the complementary insurance system does not cover damages which befall the driver and the passengers in the situations mentioned above, some private car owners ask the insurance company to provide this coverage in an additional way outside the scope of the original coverage**,** in return for an additional premium for the driver and the owner (the Insured).

In order to do this, the company incorporated in the insurance application a question which includes an accurate description of the additional coverage which the insurance applicant wishes to add, including the driver, the owner, the telephone, etc.

Employees in the motor department in the Islamic Insurance company should inform the applicant of the limits of the basic coverage of the supplementary insurance and give him the choice in incorporating any additional coverage in return for paying the assigned additional premium.

The Second Section
The Obligations of the Insured

The obligations of the Insured in the complementary vehicle insurance contract (which covers damages and losses to the vehicles and their attachments) are:

1. To give an estimate of the value of the insured vehicle on the basis of the value of similar vehicles in the local market and to sign the insurance contract.
2. To pay insurance premiums at the agreed time according to a special rate in accordance with the rules of the company. The annual premium is calculated by multiplying the value of the vehicle by the insurance rate specified in the tariff. (The insurance rate is based on the percentage of properties which is agreed on as the total sum Insured or the highest level for the company's responsibility in case of liability Insured against others.)
3. To take all reasonable and necessary precautions to keep the insured vehicle safe, to protect it against loss and damage, and to keep it fit for use.
4. In the case that an accident resulting in damage or loss happens, the Insured should guard the insured vehicle; take all necessary precautions to prevent exacerbation of loss or damage; and not drive it before carrying out the necessary repairs.
5. During the validity of the contract, the Insured must remain the only owner of the insured vehicle. If he sells or rents it without the knowledge or approval of the company, the insurance contract becomes invalid starting from the date of selling or renting.
6. In case an accident happens which requires compensation, the Insured must inform the company of that accident and inform the nearest police station as soon as possible and within 48 hours of the accident. He must provide the police station with all data related to the accident so that the police can write the necessary report, unless there are circumstances which prevent the Insured from reporting the accident.
7. In case the insured vehicle is exposed to partial theft or to a criminal act which requires compensation according to the insurance contract, the Insured must inform the police immediately. He must also cooperate with the company in convicting the criminal. The Insured must not initiate (and must not allow others to initiate) any repairs on the vehicle before informing the company and getting its approval beforehand.
8. The Insured must send all reports of an accident in writing to the company according to the insurance contract, signed by him or his legal representative.

9. The Insured or his representative must not admit the responsibility of the accident, or offer or promise conciliation, or be reconciled with the third party who caused the damage or loss to the insured vehicle without the written approval of the company.

   The company has the right, if it deems appropriate, to immediately defend the Insured and conclude any settlement on behalf of the Insured. It also has the right, on behalf of the Insured and for its own interest, to follow up the case regarding all compensations and indemnities and similar actions. Furthermore, the company has absolute freedom to initiate any case, in the name of the Insured, related to any claim which the company may ask for according to this contract.

The Third Section
Regulations and Terms Related to the Vehicle Insurance Contract

First: General terms

1. This contract and the attached table and any other appendix or endorsements are all considered part of this contract. Every word or expression which is defined in any part of this contract or in the table or in the appendices or endorsements shall have the same meaning in any other place wherever mentioned.
2. The company has the right, at any time during the validity of the contract, to examine the insured vehicle or any part of it and to be sure of the competence and eligibility of any driver working for the owner.
3. The company has the right, in case the vehicle is stolen, to postpone paying the compensation for a maximum period of six months.
4. The company or the contract holder has the right to cancel the complementary insurance at any time according to the following conditions:
   (a) seven days after notifying the other party in writing of the desire to cancel the insurance; and obtaining a signed receipt of the written notification by the other party.
   (b) fifteen days of sending a registered notice by mail or telegraph to the last known address of the party concerned, in which the desire to cancel is stated .
5. If the company cancels the insurance, the company will refund to the Insured part of the premium proportionate to the remaining period of the insurance.
6. If cancellation was by the Insured, the company will give him back the premium received less the premium which the company usually collects according to the tariff of the short period following the period when the contract was valid, on condition that no claim for compensation has been made during the validity of the contract; in that case the company will not pay the Insured anything.

For example, if a person insured his car with the company in January for an annual premium of 300 dinars and decided to cancel the contract in June of the same year (i.e. he insured his car at the beginning of the year and decided to abrogate the insurance six months after the date of insurance), the company will give him back the premium received less the premium which the company usually collects according to the tariff of the short period illustrated below.

(300 X 25% = 75). In the above example, the Insured will get back 75 dinars. This means that the company keeps (225) out of the premium of (300) and gives back to the Insured (75).

Tariff of the short period:

Period of validity of insurance	Percentage of what the company keeps of the annual premium
a. not more than 1 week	12.5 % of the annual premium
b. not more than 1 month	25 % of the annual premium
c, not more than 2 months	37.5% of the annual premium
d. not more than 3 months	50 % of the annual premium
e. not more than 4 months	62.5% of the annual premium
f. not more than 6 months	75 % of the annual premium
g. not more than 8 months	87.5% of the annual premium
h. more than 8 months	100 % of the annual premium

7. If the same insurance is held at more than one insurance company, the company will only be obligated to pay except part of the loss, damage, compensation, expenses, or fees equal to the proportion between the amount of this insurance and the total amounts of all the insurance combined.

To illustrate the above, we can say that if a person insured his vehicle at an insurance company called (a) for an estimated amount of ten thousand dinars. Then he insured it again during the validity of the first contract at another insurance company called (b) for an estimated amount of twelve thousand. He also insured it for the third time during the validity of the same contract at a third insurance company called (c) for an estimated amount of fifteen thousand. Later on, the vehicle was exposed to damages whose repairs cost three thousand dinars. The share of the insurance company (a) of this claim is equal to: 10000 divided by 37000 X 3000 = 810.811 dinars. The share of the insurance company (b) is equal to: 12000 divided by 37000 = 972.973 dinars. The share of the insurance company (c) is equal to: 15000 divide by 37000 = 1216.216 dinars.

This means that in the case of multiple insurances on the vehicle and its exposure to danger, the Islamic Insurance Company shares with the other insurance companies in paying its share of the compensations and is not bound to paying compensation alone.

8. In order for the company to pay any amount due to someone according to this insurance contract, the following two conditions must be met:
   (a) The Insured must completely fulfill the terms of this contract.
   (b) The Insured must prove the accuracy of all the data and declarations issued by the Insured in this insurance contract signed by him or by his representative.

9. The Insured's right to sue the company will expire three years after the day the damage or loss took place or from the day the Insured his representative knew about its occurrence.

Miscellaneous Regulations

1. In this contract, the Insured declares his place of residence, and the notifications sent to that place are considered valid.

2. Taking into consideration the following term of arbitration, the courts of the company's headquarters or the courts of the branch or of the agency which issued the contract and signed it will have exclusive jurisdiction in dealing with all conflicts and disputes arising from this contract between the Insured and the company.

3. The Insured agrees that the driver of the vehicle (in case the driver is an employee of the Insured) can sign the declaration about accidents when they occur.

4. The Insured agrees, in all situations in which the validity of this contract stops or in which the contract is abrogated, to give the insurance contract and certificate back to the company. The Insured will bear the criminal or civil penalties for using the contract or the certificate or raising any objection using either one of them after the contract has ended or been cancelled.

5. If the Insured loses the insurance contract or any of its attachments, he should notify the company.

B. Liability against Others Insurance for Bodily and Material Damages Resulting from Using the Insured Vehicles

(Compulsory Insurance)[1]

According to this contract, and in case an accident occurs as a result of using the insured vehicle, the insurance company is committed to indemnifying the Insured (within the responsibilities agreed on between the two parties) for the amounts the Insured is committed to paying legally for the damaged done to others (others means any person, other than the Insured or the driver, who is exposed to damage because of an accident resulting from the use of the vehicle).

First: Death/Bodily injuries

These include death and bodily and moral injuries to others. They are as follows:

Number	Type of damage	Nature of damage	Liability of insurance company
First	Death/ physical damages	1.Death	10000 dinars for one person paid to the legal heirs
		2. Permanent disability	10000 dinars multiplied by percentage of disability per person
		3. Allowance during period of disablement	100 dinars weekly for a maximum period of 39 weeks to the legal heirs up to grade two.
Second	moral damages	1. Death	2000 dinars for one person paid to the legal heirs up to grade two.
		2. Permanent disability	2000 dinars multiplied by percentage of disability per person
Third	Medical Treatment		5000 dinars as a maximum amount per person
Fourth	Losses and damages which befall properties of others and include: 1. Allowance for material damages 2. Allowance for elapsing of period 3. Allowance for loss of value		according to the amount of damage up to 75000 dinars per accident

[1] This is the insurance in effect in Jordan according to the compulsory insurance system No.32 for the year 2001 and its amendments. It aims at protecting the property, souls and bodies of others. Included in this term are the damages which befall the cars and properties of others, as well as physical damages including death or disability.

All the amounts mentioned above are not subject to any exclusions or deductibles .
The Insured has the right to increase the liability mentioned above in return for the insurance premium on which the Insured agrees with the insurance company.

Fifth: The following material and bodily damages are exempted from compensation:
The insurance company is not liable for the following:

1. The damage to the Insured or his vehicle or the driver while driving the vehicle.

2. The damage to others as a result of using the vehicle in a local or international car race which is organized to test the endurance of vehicles.

3. The damage to the passengers of the insured vehicle as a result of using it to teach driving if it is not licensed for this purpose.

4. The damage or loss to the goods of others which are transported in the insured vehicle in return for fees.

5. The damage to others as a result of an accident due to floods, rain, storms, hurricanes, volcanic explosions, earthquakes, landslides , and other natural risks, wars, military operations, civil war, insurrection, military rebellion, revolution, usurping authority, or nuclear energy risks.

6. The damage resulting from using the vehicle for private use according to the Traffic Law in effect if it is used for other than the purposes assigned to it.

Sixth: Situations in which the insurance company can claim back from the Insured or the driver of the vehicle:

A. The insurance company can claim back from the Insured or the driver what it has paid as compensation to others in the following situations:

1. If the driver does not have a driving license at the time of the accident, for the vehicle's group or if that license was permanently cancelled or temporarily suspended.

2. If the driver, at the time of the accident, was unable to control the vehicle in the usual manner because he was under the influence of alcohol or drugs or any medication.

3. If the accident occurs while using the vehicle for purposes other than for what it is licensed.

4. If the vehicle is used in such a way as to increase the risk because of violation of traffic laws or if it is used in violation of the law or public order, provided that the violation was the cause of the accident.

5. If the accident occurs during or because of using the vehicle to teach driving while it is not licensed for this purpose.

B. The insurance company can reclaim from the person who caused the damage what it has paid to others in the following two situations:

1. If it is proven that the driver deliberately caused the accident.

2. If the damage was the result of an accident caused by a stolen vehicle or a vehicle taken by force.

Seventh: General Terms:

1. Neither the insurance company nor the Insured can cancel the compulsory insurance contract of the vehicle if its license is still valid unless another compulsory insurance contract replaces it. In the case that it is cancelled, the Insured can regain from the company part of the insurance premium proportionate to the remaining period of the insurance contract, unless the Insured has had an accident during the period of the insurance contract.

2. The compulsory insurance contract is considered cancelled automatically in the case that the vehicle is total loss on condition that the vehicle's registration is cancelled by a report issued by the Vehicle License Department, which confirms it is unfit for driving. In case the compulsory insurance contract is cancelled, the Insured can regain from the insurance company part of the insurance premium proportionate with the remaining period of the insurance contract, unless the Insured has had an accident during the period of the insurance contract.

3. The insurance company cannot refuse a claim to compensate others under the pretext of late notification of the accident.

4. Any settlement between the Insured and the injured party is not binding to the insurance company unless the insurance company approves the settlement.

5. The other party who is injured has the option of asking the insurance company to pay for the damages to his properties in cash in accordance with the current prices in the local market at the time of the accident. Or the Insured can ask the company to repair the damages without deducting depreciation percentage and without gain.

Cooperative Insurance Clause

The policy holder having accepted to deal with the company , should be construed as an explicit agreement by him on .

1- Getting into partnership with other policy holders on co-operative basis .
2- Accepting the Company as his “remunerated agent” to act on his behalf for :
   - A - The management of insurance operations , and
   - B - The investment of the insurance funds available in the policies holders’ account on “Mudharabah” basis , in consideration of a fixed agreed share from any investment return profit , in its’s capacity as “Mudhareb” .

The company’s remuneration percentage from the compiled premiums , as well as the company’s share “Mudhareb” from the investments return profits , shall be determined and announced by a public notice to be displayed in the company’s head office , and all it’s branches . Prior to the commencement of every financial year .

The distributable surplus , resulting from the company’s insurance operations account after the necessary provisions and reserves have been set aside , shall be distributed in accordance with the mechanism established by the *Sharia’* Supervisory Committee , and the instructions passed by the Company’s Board of Directors to this effect .

Arbitration clause

If any difference arises as to the amount to be paid under this policy , such difference shall be referred to the decision of an arbitrator to be appointed in writing by the parties in difference of if they cannot agree upon a single arbitrator , to the decision of two arbitrator , one to be appointed in writing by each of the parties , within one calendar month after having been required in writing to do so by either of the parties , and if a party failed or refrained from doing so within one month after having received notice in writing from the other party , this party will have the liberty of appointing a sole arbitrator . In case of dispute between the arbitrators , an Umpire is to be appointed in writing by them before the commencement of resolving the dispute . The Umpire shall sit with the arbitrators and preside at their meetings . The death of any of the parties in difference shall not cancel or affect the other Arbitrator(s) or the Umpire . In case of death or resignation of the Arbitrator or the Umpire ,the party who appointed him has the right of re-appointing a substitution .

Arbitration costs and Arbitrator(s) or Umpire fees will be decided by the person who issues the Arbitration decision .

But in all cases , disputes including Arbitration Awards , shall be resolved in accordance with the provisions of the Islamic *Sharia* and the making of an award shall be a condition precedent to any right of action against the Insurers .

2- Fire Insurance Policy No.

This Policy constitutes an agreement between ***The Islamic Insurance Co. Plc.*** (hereinafter called "**The Company**") – in her capacity as a **Manager Of The Co-Operative Insurance Fund –** and the Insured whose name is stated in the policy schedule or any subsequent endorsement, that in consideration of the insured having paid or undertakes to pay the premium agreed upon on a mutual co-operative basis among the "**Policy Holders**", as total or partial donation to form an insurance portfolio.

The Company agrees with the Insured (subject to the conditions contained herein or endorsed or otherwise expressed hereon) that if after payment of the premium (contribution) the property insured described in the Schedule or any part of such property be destroyed or damaged by Fire or Lightning at any time during the period of Insurance stated in the Schedule or of any subsequent period in respect of which the Insured shall have paid and the Company shall have accepted the premium (contribution) required for the renewal of this Policy , the Company will indemnify the Insured from the co-operative fund in respect of the material damage occasioned to the property by such destruction or damage .

Provided that the Company shall in no case exceed in respect of any or each item the sum expressed in the Schedule to be insured thereon or in the whole the total sum insured.

Conditions

Misdescription

1. If there be any material misdescription of any of the property hereby insured or of any building or place in which such property is contained or any misrepresentation as to any fact material to be known for estimating the risk or any omission to state such fact the Company shall not be liable upon this Policy so far as it relates to property affected by any such misdescription, misrepresentation or omission.

Receipts

2. No payment in respect of any premium (contribution) shall be deemed to the Company unless a printed from of receipt for the same signed by an Official or duly appointed Agent of the Company shall have been given to the Insured.

Fallen Buildings

3. All Insurance under this Policy.
   1) On any building or part of any building.
   2) On any property contained in any building.
   3) On rent or other subject matter of Insurance in respect of or in connection with any building or any

Provided that

a) Such fall or displacement is of the whole or a substantial or important part of such building or impairs the usefulness of such buildings or of any part thereof or leaves such building or any part thereof or any property contained therein subject to increased risk of fire or is otherwise material.

b) Such fall or displacement is not caused by fire, loss or damage by which is covered under this Policy. In any action, suit or other proceeding, the burden of proving that any fall or displacement is caused by fire as aforesaid shall be upon the Insured.

Risks Not Covered

4. This Insurance does not cover

a) Loss by theft before, during or after the occurrence of a fire.

b) Loss or damage to the property insured occasioned by its own fermentation or inherent vice or by its undergoing any heating or drying process or by accident of manufacture; provided nevertheless that loss by fire resulting therefrom remains covered by this Insurance.

c) Loss of or damage to any electrical

property contained in any building.

Shall cease immediately upon any fail or displacement

a) of each building or of any part thereof.
b) of the whole or any part of any range of buildings or of any structure of which such building forms part .

provided that this exemption only applies to the particular electrical machine apparatus or portion of electrical installation so affected and not to other machines apparatus or electrical installations so affected and not to other machines apparatus or electrical installation so affected and not to other machines apparatus or electrical installations destroyed or damaged by fire set up by such particular machine apparatus or other electrical installation.

d) Loss or damage occasioned by or through orin consequence of:
   1. The burning of property by order of any public authority.
   2. Subterranean fire.

5. This insurance does not cover any loss or damage which either in origin or extent is directly or indirectly, proximately or remotely occasioned by or contributed to by any of the following occurrences namely:-
   1- Earthquake, volcanic eruption, typhoons, hurricane, tornado, cyclone or other convulsion of nature or atmospheric disturbance

2- War, invasion, act of foreign enemy, hostilities or warlike operation (whether war be declared or not) mutiny, riot, civil commission, strike, lock out, insurrection, rebellion, revolution, conspiracy, military or usurped power, martial law, state of siege, or any of the events or causes which determine the proclamation or maintenance of martial law or state of siege.

Any loss or damage happening during the existence of abnormal conditions (whether physical or otherwise) directly

machine apparatus or any portion of the electrical installation arising from or occasioned by over-running, excessive pressure, short circuiting arcing, self-heating or leakage of electricity from whatever cause (lighting included) arising;

notes, cheques, books of account or other business books;

f) Explosives;
g) Any loss or damage to the property insured occasioned by spontaneous combustion;
h) Any loss or damage occasioned by or through in consequence of explosion; but loss or damage by explosion of gas used for illuminating or domestic purpose in a building in which gas is not generated and which does not form part of any gas works, will be deemed to be loss by fire within the meaning of this Policy.
i) Any loss or damage occasioned by or through or in consequence of the burning whether accidental or otherwise of forests, bush , parairie , pampas or jungle and the clearing of lands by fire.

Alterations or Removals

7.- Under any of the following circumstances the insurance cease to attach as regards the property affected unless the Insured, before the occurrence of any loss or damage, obtains the sanction of the Company signified endorsement upon the Policy, by or on behalf of the Company.

a) If the trade or manufacture carried on be altered, or if the nature of the occupation of or other circumstances affecting the building insured or containing the insured property be changed in such a way as to increase the risk of loss or damage by fire.
b) If the building insured or containing the insured property becomes unoccupied and so remains for a

or indirectly, proximately or remotely, occasioned by or contributed to by or arising out of or in connection with any of the occurrences enumerated is subparagraphs (1) and (2) above shall be deemed to be loss or damage which is not covered by this insurance, except to the extent that such loss or damage happened independently of the existence of such abnormal conditions.

Risks not covered unless expressly included

6.- Unless otherwise expressly stated this insurance does not cover:

a) Goods held by the Insured in trust or on commission;
b) Bullion or unseat precious stones;
c) Any curiosity or work of art for an amount exceeding Jordan Dinars or equivalent;
d) Manuscripts, plans, drawings, designs, patterns, models or moulds;
e) Securities, obligations or documents of any kind, stamps, coined or paper money, bank

under this Policy shall be forfeited.

Marine Clause

9.- This Insurance does not cover any loss or damage to property which, at the time of the happening of such loss or damage, is insured by or would, but for the existence of this Policy, be insured by any Marine Policy or Policies except in respect of any excess beyond the amount which would have been payable under the Marine Policy or Policies had this insurance not been effected.

Cancelment Of The Insurance

10.- This insurance may at any time be terminated at the option of the Company, on seven day's notice to the effect being given to the Insured, in which case the Company shall be liable to repay on demand a rateable

period of more than 30 days.

c) if property insured be removed to any building or place other than that in which it is herein stated to be insured .

d) If the interest in the property insured pass from the Insured. Nevertheless, where the interest passes from the Insured by will or by operation of law, the heirs, new owners or new tenants shall be allowed a period of two months as from the date of transfer in which to declare their title and to require evidence of such declaration by endorsement of the Policy.

8.- On the occurrence in the building or buildings Insured or in the property or properties contignous thereto other than by the act of the Insured of any alteration of such a kind as to increase the risks covered by this Policy, the Insured shall, within ten days of becoming aware of such alteration, give notice thereof to the Company and shall pay such additional premium (contribution) as may be required. Unless such notice be given all rights of the Insured to indemnity

a) enter and take and keep possession of the building or premises where the loss or damage has happened.

b) take possession of or require to be delivered to it any property of the Insured covered under this Policy in the building or on the premises at the time of the loss or damage.

c) keep possession of any such property and examine, sort, arrange, remove, or otherwise deal with the same;

d) sell any such property or dispose of the same for account of whom it may concern.

The powers conferred by this condition shall be exercisable by the Company at any time until notice in

proportion of the premium (contribution) for the unexpired term from the date of cancelment .

Occurrence Of a Fire

11.- On the happening of any loss or damage the insured shall forthwith give notice thereof to the Company, and shall within 15 days after the loss or damage or such further time as the Company may in writing allow on that behalf, deliver to the Company.

a) a claim in writing for the loss or damage containing as particular an account as may be reasonable particable of all the several articles or items of property damaged or destroyed and of the amount of the loss or damage thereto respectively, having regard to their value at the time of the loss or damage, not including profit of any kind;

b) particulars of all other insurance if any on all or part of the same property .

The Insured shall also at all times at his own expense produce, procure and give to the Company all such further particulars plans, specifications books, voucher, invoices, duplicates or copies thereof, documents proofs and information with respect of the claim and the origin and cause of the fire and the circumstances under which the loss or damage occurred and any matter touching the liability or the Company .

No claim under this Policy shall be payable unless the terms of this condition have been complied with except in the case of delay in notification if it shall appear from the circumstances that the delay was unavoidable.

rights Of Company Resalvage

12.- On the happening of any loss or damage to any of the property insured by this Policy, the Company may

replace any property the Insured shall, at his own expense, furnish the writing is given by the Insured that he makes no claim under the Policy or, if any claim is made, until such claim is finally determined or withdrawn and the company shall not by any act done in the exercise or purported exercise of the powers hereunder incur any liability to the Insured or diminish its right to rely upon any of the conditions of this Policy in answer to any claim.

If the Insured or any person on his behalf shall not comply with the requirements of the Company or shall hinder or obstruct the Company in the exercise of its powers hereunder all benefit under this Policy shall be forfeited .

The Insured shall not in any case be entitled to abandon any property to the Company whether taken possession of by the Company or not .

Forfeiture

13.- If the claim be in any respect fraudulent or if any false declaration be made or used in support thereof or if any fraudulent means or devices are used by the Insured or any acting on his behalf to obtain any benefit under this Policy shall be forfeited .

Reinstatement

14.- The Company may at its option reinstate or replace the property damaged or destroyed or any part thereof, instead of paying the amount of the loss or damage, or may enjoin with any other company or Insurers in so doing.

In no case shall the company be bound to expend more in reinstatement than it would have cost to reinstate such property as it was at the time of the occurrences of such loss or damage

If the Company so elect to reinstate or

Declaration Of Encumbrances

18.- The Insured shall not be entitled to

Company with such plans, specifications, measurements; quantities and such other particulars as the Company may require.

No acts done, or caused to be done by the Company with a view to reinstatement or replacement shall be deemed an election by the Company to reinstate or replace.

If in any case the Company shall be unable to reinstate or repair the property hereby insured, because of any municipal or other regulations in force affecting the alignment of streets, or the construction of buildings, or otherwise, the Company shall, in every case, only be liable to pay such sum as would be requisite to reinstate or repair such property if the same could lawfully be reinstated to its former condition.

Subrogation Of Rights

15.- The Insured shall, at the expense of the Company, do, and concur in doing, and permit to be done, all such acts and things as may be necessary or reasonably required by the Company for the purpose of enforcing any rights and remedies, or of obtaining relief or indemnity from other parties to which the Company shall be or would become entitled or subrogated upon its paying for or making good and loss or damage under this Policy, whether such acts and things shall be or become necessary or required before or after his indemnification by the Company.

Contribution In Insurance

16.- If at the time of any loss or damage happening to any property hereby Insured, there be any other subsisting insurance or insurances, whether effected by the Insured or by any other person or persons, covering the same property, this Company shall not be liable to pay or contribute more than its rateable proportion of such loss or damage.

17. This Insurance may not under any circumstances be a Source of profit to the Insured, its sole purpose being to indemnify the Insured in respect of material damage to the Insured property having regard to the actual value of such property at the time of claim payment by the Company of the indemnity due unless he shall have furnished to the Company any official certificates required to prove that the Insured property is not encumbered by any security on real estate (usufruct, mortgage, lien) or in the case of commercial stocks, that they are not encumbered by a pledge.

Expert Valuation

19.- It is expressly agreed that if the amount of fire damage covered by this Policy cannot be determined by agreement between the parties, it shall be referred to a valuation by two experts appointed respectively by each of the parties and such experts shall immediately upon their appointment and before entering on the reference, appoint a third expert (umpire) who shall decide where necessary upon any matters regarding which the experts are unable to reach agreement .

In case either party shall refuse or fail to appoint an expert within two calendar months after receipt of a registered letter sent to him by the other party requesting him to do so, such other party shall be at liberty to apply for the appointment of an expert by the Chairman of the Chamber to Commerce at the Company Head Office or at the branch which issued this Policy .

Similarly in the event of the two experts being unable to agree on the Choice of a third expert to act as an umpire, the Chairman of the Chamber of Commerce above mentioned shall be called upon by the more assiduous of the parties .

The experts shall not be subject to any formalities. The costs of cash expert shall be borne by the party by whom he was appointed and those of the umpire in equal shares by the Insured and the Company.

It is expressly agreed that, in the event of disagreement between the Company and the Insured on the amount of loss or damage, the Insured shall not be entitled to bring any action or suit against the Company upon this Policy until the damage shall have been proved and

the fire.

Consequently, if is revealed by the assessment agreed between the parties or determined by the appointed expert that the value of the property insured is less than the sum insured thereon, then the Insured shall be entitled to payment only of the amount of the actual and determined loss.

If, however, the property hereby insured shall, at the breaking out of any fire, be collectively of greater value than the sum insured thereon, then the Insured shall be considered as being his own Insurer for the difference and shall bear a rateable proportion of the loss accordingly. Every item if more than one, of the Policy shall be separately subject to this condition.

After each and every loss, the sum insured by this Policy shall be reduced by an amount equal to the amount of damage agreed and paid by the Company. The insurance may, neverthless, at the request of the Insured, be continued at its original value on payment by the Insured of a proportionate premium (contribution) for the unexpired term of the Policy.

estimated by the experts in the manner above described .

Time Limit For Company's Liability

20.- In no case whatever shall the Company be liable for any loss or damage after the expiration of three years from the date on which the Insured shall have become aware of the happening of the loss or damage unless the claim is the subject of pending legal action or expert valuation.

Notice

21.- Every notice and other communication to the Company required by these conditions must be made to the Head Office of the Company or to the branch which issued the Policy according to the particular case, by dispatch with advice of receipt or by registered post of an official form or a letter .

Arbitration

22.- In case of any dispute related to execution or interpretation of this Policy and any of its conditions, it shall be referred to an Arbitration Committee. The Arbitrators of that Committee to be appointed in accordance to the provisions of Article No.19 herein, regarding expert valuation. All dates and procedures mentioned therein shall be applicable. Arbitrators resolutions shall be final and binding to the two parties .

Cooperative (Mutual) Insurance Clause

The policy holder having accepted to deal with the company , shall be construed as an explicit agreement by him on :-

(1) Getting into partnership with the other Policy Holders on co-operative basis.

(2) Accepting the company as his "Remunerated Agent" to act on his behalf for :-

(a) The Management of Insurance Operation and,

(b) The Investment of the Insurance Funds available in the Policy Holders' Account on "Mudharabah" basis, in consideration of a fixed share from any Investment returns profits, in its capacity as "mudhareb".

The Company 's Remuneration percentage from the complied Premiums, as well as the Company's share as "mudhareb" from the Investments returns profits, shall be determined and announced by a Public Notice to be displayed in the Company's Head Office, and all its Branches, prior to the commencement of every Financial Year.

The distributable surplus, available in the Company's Insurance Operations Account after the necessary Provisions and Reserves have been set aside, shall be distributed in accordance with the mechanism as set down by the Sharee'ah Supervisory Committee, and as Per the instructions passed by the Company's Board of Directors to this effect .

20. Arbitration term clause

If a dispute arises over specifying the amount of the damage or loss, this dispute will be transferred to an arbitrator whom the two disputing parties appoint in writing. If the two parties are not able to reach an agreement regarding the arbitrator, the dispute will be transferred to two neutral arbitrators. Each party assigns one arbitrator in writing within two months of one party receiving a written request to this effect from the other party. If one of the two parties refuses or was unable to appoint an arbitrator within two months of receiving a request to that effect from the other party, the other party shall have full freedom in appointing one arbitrator. If there is a disagreement between the two arbitrators, the case shall be transferred to an arbiter whom the two arbitrators have already appointed in writing before studying the resultant dispute. The arbiter sits with the two arbitrators and chairs the sessions. The death of one of the two disputing parties does not cancel or affect the competence or authority of the arbiter or the two arbitrators consecutively. In the case that the arbitrator or the arbiter dies or either one resigns, the party who appointed either one of them has the right to choose a replacement. The arbitrator or the two arbitrators or the arbiter has the freedom to decide on the cost and fees of arbitration. The arbiter shall issue the arbitral award, which shall be in accordance with the Islamic Sharia. The Insured cannot resort to litigation before arbitration as is mentioned above.

3. Householders Comprehensive Insurance

It is hereby agreed, according to this policy and subject to the terms, definitions, and exclusions stated in this policy or in any endorsements added to it, that if any of the insured risks occurred at any time during the insurance period or any other period in which the insured party pays the premium and the company accepts to renew the policy, the company is obligated to compensate the insured party either in cash, or by restoring the property back to its former condition, or by repairing it in the manner and the limits explained later.

Definitions:

Buildings: The word "buildings" used in this policy means the private residential building, or the apartment mentioned in the appendix of the policy, and the outer buildings attached to the building and used for living purposes, and the outer walls (fences), on condition that all these constructions must be built of stone and cement.

Contents: The word "contents" used in this policy means all the furniture of the house and/or personal possessions and belongings and/or household instruments and equipment inside the building. The following are exempted:

a. Gold, jewels, jewelry, and fur.
b. Cars, boats, and animals.
c. Contracts, title deeds, promissory notes, maps, coins, stamps, and other documents and papers.

Main risks: "Main risks" as used in this policy means destruction or damage resulting directly from the occurrence of any one of the following risks:

a. Fire and/or lightning.
b. Explosion of any of the properties or equipment which constitute part of the insured items with the exception of what is mentioned in item (c) below.
c. Explosion or overflow of the water tanks, containers, or water pipes because of an accidental or sudden event.
d. Storms and Tempest (whether accompanied by rain or not) which caused damages to the building or its contents. In order for the contents of the building to be insured, it must be preceded by inevitable destruction or damage to the building itself by the direct forces of the storms and Tempest .
e. Impact of vehicles not owned by the insured party or members of his family or those who work for him or are in his service with the buildings, surrounding walls, and outer gates.
f. Earthquakes.
g. Falling of aircraft or objects therefrom .
h. Floods. This means sudden or violent or great uncontrollable escape of water in its natural boundaries such as the sea, river, lake, or pond, or canal, as a result of rise of water level or collapse of side water levees or barriers.
i. Strikes, riots, and malicious damage .

Insurance sections:

First section: Buildings

This section covers buildings owned by the insured party or those for which the insured party is legally responsible for main risks.

Second section: Contents

This section covers the contents owned by the insured party and members of his family against main perils . The following are not considered part of the contents:

1. Gold, jewels, jewelry, and fur.

2. Cars, boats, and animals.
3. Contracts, title deeds, promissory notes, maps, coins, stamps, and other documents and papers.

The validity of this insurance stops regarding sections one and two above if the building is abandoned for thirty days during any insurance period unless the insured party gets the written approval of the company indicating the continuance of the insurance.

Third section: Temporary loss of rent
This section covers reasonable additional expenses which the insured party incurs for staying in a hotel or alternative residence because of the destruction or damage of the private residential building or apartment of any of the main risks so that the building becomes unsuitable for living for a specific period of time. This period is the one needed to replace or repair the destruction or damage for an amount of money not to exceed 5% of the total amount of contents' insurance or (2500) dinars, whichever is less.

Fourth section: Public liability towards others
According to this section, the company is obligated to compensate the Insured as owner or user of the private residence or apartment for the monies he is legally liable for the accidents which occur during the insurance period in or around the private residence or apartment and which results in bodily damages to any person except the insured party or members of his family or whoever works in his service.

It is always stipulated that the responsibility of the company regarding any accident which includes losses or a number of accidents caused by one cause shall not exceed the amount of (0000) Jordanian dinars, including expenses and expenditures which are paid, with the approval of the company, for legal procedures in any lawsuit against the insured party.

Special exclusions to section four:
This section does not cover responsibility resulting from or caused by:
a. The work or profession of the insured party.
b. Owning, keeping, using, or operating any vehicle which is operated mechanically or any lift which is operated by electric power.
c. Any agreement which imposes any responsibility on the insured party, and which would not have emerged had it not been for this agreement.

Section five: Compensation for the death of the insured party
This section covers the insured party or his spouse for the death, by accident, which occurs in the private residence or apartment caused by outside violence

and theft committed by thieves or as a result of fire, on condition that the responsibility of the company, according to this section during the insurance period, shall not exceed the amount of (5000) Jordanian dinars or half the amount of the contents' insurance, whichever is less, provided that death occurred within three months of the injury or accident.

General exclusions :

The company is not responsible according to this policy for:

1-The loss or damage or liability which results directly or indirectly from:

a- Nuclear weapon materials, ionic radiation, or pollution by radiation emitted from any kind of fuel or nuclear waste.

b- War, invasion, foreign aggression, aggression, military work (whether war was declared or not), civil war, rebellion, strikes, civil disturbances which are connected with public uprising, military uprising, rebellion, revolution, insurgence, coup d 'etat, usurping authority, riots, imposing martial law, blockade, confiscation, nationalization, or occupation.

In every performance, case, lawsuit, or other procedures to support a claim for losses, damages, or liability according to this policy, the burden of proving that the loss, damage, or liability was not among the exclusions lies on the Insured .

2- The subsidiary losses or damages whatever their types or characteristics.

3-Theft, loss, or damage to any properties because of intentional acts or instigation or collusion of the insured party or any member of his family, or any person or servant working for him.

General Conditions:

1. a. When destruction or damage to the insured property occurs, the insured party must notify the company immediately in writing. He must also present, at his own expense within fifteen days of the date of the occurrence of destruction or damage, a written claim including a detailed and accurate statement supported by evidence and proofs in accordance with what the company requires and requests. If the company decides to replace or repair the damaged buildings, the insured party has to provide the company with all the maps, specifications, and quantities which the company requires. In case there is loss or damage because of theft, the insured party must inform the police immediately.

   b. When the insured party receives any notice about any accident or claim which may lead to a claim for compensation according to section four, he must immediately notify the company of it and provide it with all the available details and data. He must also send the company every judicial writ, or summons, or a notification of the start of the proceedings of the judicial lawsuit against him once he receives it. The insured party must also offer to help the company and provide it with all the necessary

information so that the company may pay or reject the claim for compensation. The insured party does not have the right to negotiate, pay, acknowledge, or refuse any claim without the written approval of the company.

2. If it is discovered at the time of the occurrence of insured loss, damage, or liability according to this policy that there is another insurance contract which covers the same loss, damage, or liability or any part of it, then the company is not obligated to pay more than its proportional share of that loss, or damage, or liability.
3. If it is discovered at the time of the occurrence of an insured destruction or damage that the value of the insured property according to sections one and two is more than the insurance amount, then the insured party is considered the personal insurer of the difference between the two amounts. In this case, he pays his share of the destruction or damage in a relative manner if the policy includes more than one item, and every item is insured independently of the other items. This clause is applied on every item individually.
4. The insured party has the right to terminate this insurance at any time upon written request. In this case, the company keeps the premium calculated on the basis of the prices of the short periods for the period of the validity of the policy. The company also has the right to terminate the insurance at any time provided it notifies the insured party in writing before fifteen days. In this case, the company is obligated to give back to the insured party a share of the insurance premium proportionate to the remaining period of the policy.
5. Every notification or correspondence in relation to this policy must be in writing.

6. When any destruction or damage occurs to the insured building, the company has the right:

    a. to enter the buildings in which the destruction or damage occurred, to take or receive the insured properties, and to deal with the depleted items in any reasonable and appropriate manner. This policy shall be a proof and a license to carry out these works.

    b. To begin to deal conclusively in the name of the insured party or on his behalf, to pay for any judicial judgments, and to initiate the judicial lawsuit, at its own expense, and for its own interest but in the name of the insured party in order to get any compensation or recover any amounts from others for any insured items in this policy.

7. The insured party loses all rights he has according to this policy if the claim includes fraud or if fraudulent means were used by the insured party or any other person working on his behalf to get any benefit according to this policy.

8. This policy is subject to the laws of the Hashemite Kingdom of Jordan. The courts of the Hashemite Kingdom of Jordan have the sole judicial authority to deal with any dispute which emerges based on this policy. Disposing the dispute (arbitral award) should be carried out according to the rules of Islamic Sharia.

Cooperative Insurance Clause

The policy holder having accepted to deal with the company , should be construed as an explicit agreement by him on .

1- Getting into partnership with other policy holders on co-operative basis .

2- Accepting the Company as his “remunerated agent” to act on his behalf for :
   - A - The management of insurance operations , and
   - B - The investment of the insurance funds available in the policies holders’ account on “Mudharabah” basis , in consideration of a fixed agreed share from any investment return profit , in it’s capacity as “Mudhareb” .

The company’s remuneration percentage from the compiled premiums , as well as the company’s share “Mudhareb” from the investments return profits , shall be determined and announced by a public notice to be displayed in the company’s head office , and all it’s branches . Prior to the commencement of every financial year .

The distributable surplus , resulting from the company’s insurance operations account after the necessary provisions and reserves have been set aside , shall be distributed in accordance with the mechanism established by the Sharee’ah Supervisory Committee , and the instructions passed by the Company’s Board of Directors to this effect .

4. Marine (Cargo) Insurance Policy

Preamble :

This Policy constitutes an agreement between The Islamic Insurance Co. Plc. (hereinafter called "The Company") in her capacity as Manager or the Co-operative Insurance System and The Insured whose name is stated in the policy schedule or in any subsequent endorsement , that if the "Interest" insured hereunder is lost or damaged as a result of the operation of a risk insured against (subject to the warranties & special conditions of the policy) at any time , during the policy duration . "The Company " hereby undertakes to indemnify The Insured for any loss of or damage to the Interest specified in the policy schedule , subject to The Insured had paid or undertook to pay to "The Company " the premium agreed upon on a mutual co-operative basis among the "Policy Holders" .

Duties of The Assured

A. Liability of carriers, bailees or other third parties :

It is the duty of the Assured and their agents in all cases , to take such measures as may be reasonable for the purpose of averting or minimizing the loss and to ensure that all rights against Carriers , Bailees or other Third Parties are property preserved and exercised . In particular , the Assured or their Agents are required :

1. TO CLAIM IMMEDIATELY on Carriers , Port Authorities or other Bailees for any packages that are missing or damaged .
2. TO APPLY IMMEDIATELY FOR SURVEY in the Docks to The Carrier's Representatives or other Bailees if any loss or damage be apparent or for any packages discharged defective , and to claim on the Carriers or other Bailees for any loss or damage found at such survey .
3. IN NO CIRCUMSTANCES , to give clean receipt where the goods are damaged , short or suspicious and in this case he must sign with the driver and/or the carrier (owner) on a receipt to this effect .
4. TO GIVE NOTICE in writing to the Carrier's Representatives or other Bailees' within three days of delivery if the loss or damage was not apparent at the time of taking delivery , and to make prompt arrangements for survey to be held .

B. Claims Documents :

In the event of a claim payable under this insurance , the Insured must submit original or copies of the following documents within (6) months of the date of the accident :

1. Insurance Policy / Certificate .
2. Commercial Invoice .
3. Packing list &/or weight certificate
4. Bill of lading .
5. Customs Declaration .
6. Vessel's Out –Turn Report or Addendum .
7. Letter of protest to the carrier .
8. Truck receipt .
9. Delivery Other .
10. Any other Necessary Documents

<u>Note:</u> Photo copies will be accepted only if they are certified by official or related party .

C. <u>OVERNMENT INSTRUCTIONS</u> <u>:</u>

The Insured should comply with the requirements of the **Insurance Commission** regarding the inspection of the damaged goods according to the instructions of this commission .

<u>Cooperative Insurance Clause</u>

The policy holder having accepted to deal with the company , should be construed as an explicit agreement by him on .

1- Getting into partnership with other policy holders on co-operative basis .

2- Accepting the Company as his "remunerated agent" to act on his behalf for :

   A - The management of insurance operations , and

   B - The investment of the insurance funds available in the policies holders' account on "Mudharabah" basis , in consideration of a fixed agreed share from any investment return profit , in it's capacity as "Mudhareb" .

The company's remuneration percentage from the compiled premiums , as well as the company's share "Mudhareb" from the investments return profits , shall be determined and announced by a public notice to be displayed in the company's head office , and all it's branches . Prior to the commencement of every financial year .

The distributable surplus , resulting from the company’s insurance operations account after the necessary provisions and reserves have been set aside , shall be distributed in accordance with the mechanism established by the Sharee’ah Supervisory Committee , and the instructions passed by the Company’s Board of Directors to this effect .

Arbitration Clause

If any difference arises as to the amount to be paid under this policy , such difference shall be referred to the decision of an arbitrator to be appointed in writing by the parties in difference of if they cannot agree upon a single arbitrator , to the decision of two arbitrator , one to be appointed in writing by each of the parties , within one calendar month after having been required in writing to do so by either of the parties , and if a party failed or refrained from doing so within one month after having received notice in writing from the other party , this party will have the liberty of appointing a sole arbitrator . In case of dispute between the arbitrators , an Umpire is to be appointed in writing by them before the commencement of resolving the dispute . The Umpire shall sit with the arbitrators and preside at their meetings . The death of any of the parties in difference shall not cancel or affect the other Arbitrator(s) or the Umpire . In case of death or resignation of the Arbitrator or the Umpire ,the party who appointed him has the right of re-appointing a substitution .
Arbitration costs and Arbitrator(s) or Umpire fees will be decided by the person who issues the Arbitration decision .
But in all cases , disputes including Arbitration Awards , shall be resolved in accordance with the provisions of the Islamic Sharee’ah and the making of an award shall be a condition precedent to any right of action against the Insurers .

5. Personal Accident Insurance

Since the insured party described in Table 1 has applied in writing to the Islamic Joint Stock Limited Insurance Company (referred to hereafter as the company) to conclude the insurance contract described hereafter, and since this application with all its statements, declarations, and agreements is considered the basis of this contract, and since he has paid the insurance premium mentioned in Table 1, the company is obligated according to this contract to pay to the insured party or the beneficiary in case of the insured party's death the compensation according to the Compensation Table 2 mentioned in this policy. The compensation shall be paid during the validity of this contract in the case that the insured party has a physical injury which is the direct result of an external,

visible, violent, contingent, accidental, and/or unintentional accident which by itself (to the exclusion of other accidents) has led to the death of the insured party or to his disability as is defined hereafter. If the consequences of the accident exacerbate as a result of the health of the insured party or of his disability that is unrelated to the accident, the compensation shall apply on the basis of the direct practical results that this accident would have incurred on another person in good, normal physical health.

In addition, the company is obligated to pay the reasonable medical expenses according to the limits specified in the **Compensation Table 2 and to the conditions of this contract. It is always stipulated that:**

1. According to the conditions of this contract, compensation will not be paid for more than one item of the items of the Compensation Table 2 for the results of one accident except in case of medical expenses specified in item five of the same table. If as a result of one accident, more than one physical damage was incurred even in successive periods, the company is obligated to pay the amount for the greatest damage only, subtracted from any compensation which might have been paid for that accident except the medical expenses mentioned above.

2. No weekly compensation will be paid unless the total amount of this compensation has been identified in the application and has been approved.

3. The total amount subject to be paid as compensation according to this contract, whether the result of one accident or more, shall not exceed the largest insured amount in any item of the items of the Compensation Table 2.

Table (1)

The name of the insured		The number of the policy	
The name of the insured	Date of birth		The profession of the insured
Date of inception of insurance	Date of the end of insurance	method of paying premiums	premium
The beneficiary in case of the occurrence of the risk specified in item (1) in the compensation table (2).			

Compensation Table 2

The amount of insurance (any coverage which does not have an insurance amount in the space allotted for it below is considered outside this contract)

Insurance Coverage or Disability	Basic Premium	Additional Tax	Issuing Fees	Fiscal Stamps	Total Premium
1. Death due to accident	( )	Death resulting within six months of the occurrence of the accident			
	In numbers				
2. Total and permanent disability	100%				
3. Partial permanent disability	The company pays a percentage of the insurance amount as specified in the subsequent Compensation Table.				
4. Total temporary disability	For every week, and for a maximum period of 100 weeks after excluding the first weeks .				
5. Medical expenses	As a maximum for every accident.				

<u>**Additional insurance**</u>: It is understood and agreed upon (this additional insurance must be mentioned clearly in the insurance application) that if the mentioned accident takes place during and because of the presence of the insured party, as a traveler, in any public means of transportation in return for a fee (except all types of aviation) and has led to the death of the insured party within six months of the date of the accident, the insured party must pay an additional premium amounting to……………………. In all cases, this additional insurance is subject to the conditions, regulations, and exceptions of this contract.

Definitions:

Total permanent disability: The disability which prevents the person from working at his normal job for twelve consecutive months and then it prevents him from practicing any profession or job for which he is qualified in a reasonable way according to his education, training, and experience.

Partial permanent disability: The accidental physical harm resulting from an accident and which by itself, to the exclusion of other accidents, leads within one year of its occurrence to any type of disability mentioned in the insurance coverage in Table 2 of this policy.

Exceptions:

It is understood and agreed upon that no compensation will be paid according to this insurance if death or the accident is the direct or indirect result of one of the following:

1. Suicide or intentional accident regardless of the mental condition of the insured party.
2. War, invasion, aggression of a foreign enemy, aggressive actions (whether war is declared or not), rebellion, public disturbances which are similar to public uprisings, military revolution, military insurgence, any act committed by any person or body according to orders from any organization whose aim is to overthrow by force any government or to influence it by means of violence, or sabotage, or any military acts.
3. Flying in an airplane or in any type of aviation unless the insured party is a passenger who pays fees in a regular flight or rented journey.
4. Abuse of medications or alcohol.
5. Diving, or participating or training in any type of dangerous sports, or participating in speed races using a vehicle with an engine, whether land or water or horse race.
6. Illness or mental or physical disorder.
7. Any physical accident which leads to the rupture or slipping of the spinal column.
8. Pregnancy and childbirth, abortion, or any resulting complications.
9. Poisoning (including gas poisoning) unless it is accompanied by or the result of an accident.
10. Cases present before the beginning of the insurance or when it is renewed.

General Conditions:

1. The company is not obligated to compensate any claim according to this insurance unless the claim has been submitted to the company in writing within six weeks of the occurrence of an accident which may lead to a claim.
2. This insurance ceases completely in the following situations:
   a. When the insured party reaches sixty-five years of age.
   b. If the insurance premium is not paid when it becomes due or in a maximum case, within two weeks of that.

3. If compensation becomes payable as a result of a claim according to this contract, the part of the annual premium not paid will be deducted from the amount which must be paid as a compensation to this claim.

4. The insured party must notify the company of any change in his profession mentioned in the application.

5. The company may terminate this insurance according to a written notification which the company sends to the insured party at his last address known to the company, and the insurance be terminated two weeks after the issuance of the notification. A percentage of the premium paid to the company for the remaining period of the insurance will be given back to the insured party. If the insured party revokes the contract, the earned premium will be calculated according to the short period system practiced by the company.

6. The company must receive the document issued about the injury from the medical treatment party explaining in detail the date of the accident and its consequences. The company has the right, at its own expense, to make sure that the injury leading to a claim or death actually resulted from the accident.

List of injuries mentioned in the third item of the Compensation Table:

The percentage of the insurance amount related to "partial permanent disability" in the third item of the compensation table will be specified as follows:

-		Amount of Compensation
-	Complete mental disorder which cannot be healed and which prevents the person from earning his living	100 %
-	Complete deafness in both ears	100 %
-	Complete pulling out of the lower jaw	100 %
-	Loss of ability to speak	100 %
-	Loss of the right hand	60 %
-	Loss of the right arm	60 %
-	Loss of the lower limb until above the knee	60 %
-	Loss of the leg	60 %
-	Complete loss of one eye	50 %
-	Paralysis or loss of the left hand	50 %
-	Paralysis or loss of the left arm	50 %

The percentage of the insurance amount for the following injuries is specified as follows provided that the insurance amount is not more than fifty thousand dinars. If the insurance amount exceeds this figure, compensation will be calculated according to these percentages of the maximum amount mentioned above.

		Amount of Compensation	
		Right hand	Left hand
-	Complete loss of the movement of the shoulder	40 %	30 %
-	Complete loss of the movement of the elbow	25 %	20 %
-	Complete loss of the movement of the wrist	30 %	25 %
-	Complete loss of the thumb	20 %	15 %
-	Loss of the nail phalange of the thumb	10 %	05 %
-	Loss of the movement of the of the thumb	20 %	15 %
-	Loss of the phalange of the index finger	10 %	08 %
-	Complete loss of the index finger	15 %	10 %
-	Loss of the nail phalange of the index finger	05 %	03 %
	Complete loss of the thumb and index finger	35 %	25 %
	Complete loss of the thumb and one finger other than the index finger	25 %	20 %
	Loss of two fingers other than the thumb and index fingers	12 %	08 %
	Loss of three fingers other than the thumb and index fingers	20 %	15 %
	Loss of four fingers including the thumb	45 %	40 %
	Loss of four fingers excluding the thumb	40 %	35 %
	Loss of the middle finger only	10 %	08 %
	Complete loss of the little finger	07 %	03 %
	Complete loss of the ring finger	07 %	02 %
	Deafness in one ear	-	30 %
	Partial loss of the movement of the lower jaw	-	40 %
	Loss of the foot	-	45 %
	Complete loss of the movement of the hipbone	-	40 %
	Complete loss of the movement of the knee	-	20 %
	Complete loss of the toes	-	25 %
	Loss of four toes including the big toe	-	20 %
	Loss of four toes excluding the big toe	-	10 %
	Loss of the big toe	-	10 %
	Loss of two toes other than the big toe	-	05 %
	Loss of one finger other than the big finger	-	03 %

In all these cases, the amount of compensation according to this item must not exceed the amount of insurance whether as a result of one accident or more.

The disability of one extremity is equal to the disability of part of it and both are considered as final absolute disability of the extremity to carry out its function. The extremities or parts of them which can not ultimately be used are considered as if lost.

Arbitration clause

If any difference arises as to the amount to be paid under this policy, such difference shall be referred to the decision of an arbitrator to be appointed in writing by the parties in difference of if they cannot agree upon a single arbitrator , to the decision of two arbitrator , one to be appointed in writing by each of the parties , within one calendar month after having been required in writing to do so by either of the parties , and if a party failed or refrained from doing so within one month after having received notice in writing from the other party , this party will have the liberty of appointing a sole arbitrator . In case of dispute between the arbitrators , an Umpire is to be appointed in writing by them before the commencement of resolving the dispute . The Umpire shall sit with the arbitrators and preside at their meetings . The death of any of the parties in difference shall not cancel or affect the other Arbitrator(s) or the Umpire . In case of death or resignation of the Arbitrator or the Umpire ,the party who appointed him has the right of re-appointing a substitution .
Arbitration costs and Arbitrator(s) or Umpire fees will be decided by the person who issues the Arbitration decision .
But in all cases , disputes including Arbitration Awards , shall be resolved in accordance with the provisions of the Islamic Sharee'ah and the making of an award shall be a condition precedent to any right of action against the Insurers .

Cooperative Insurance Clause

The policy holder having accepted to deal with the company , should be construed as an explicit agreement by him on .

1- Getting into partnership with other policy holders on co-operative basis .
2- Accepting the Company as his “remunerated agent” to act on his behalf for :
   A - The management of insurance operations , and
   B - The investment of the insurance funds available in the policies holders’ account on “Mudharabah” basis , in consideration of a fixed agreed share from any investment return profit , in it’s capacity as “Mudhareb” .

The company’s remuneration percentage from the compiled premiums , as well as the company’s share “Mudhareb” from the investments return profits , shall be determined and announced by a public notice to be displayed in the company’s head office , and all it’s branches . Prior to the commencement of every financial year .

The distributable surplus , resulting from the company’s insurance operations account after the necessary provisions and reserves have been set aside , shall be distributed in accordance with the mechanism established by the Sharee’ah Supervisory Committee , and the instructions passed by the Company’s Board of Directors to this effect .

This contract is signed in ……….. on …… for / the Islamic Insurance Company P.l.c.

6- Contractors ‘ All Risks Policy No.

Preamble :

This Policy constitutes an agreement between **The Islamic Insurance Co**. Plc. (hereinafter called **“The Company”)** in her capacity as **Manager of the Co-operative Insurance Fund- and The Insured** whose has submitted a proposal and signed declaration which is agreed to be the basis of this contract and be held as incorporated herein that in consideration of the Insured having paid the premium agreed upon on a mutual co-operative basis among the **“Policy Holders” .**

The Company will (subject to the terms , exceptions , and conditions contained herein or endorsed hereon) during the period as stated in the said Schedule or during any subsequent period , indemnify the Insured in the manner and to the extent hereinafter provided .

General Exclusions

The Insurers will not indemnify the Insured in respect of loss, damage or liability directly or indirectly caused by or arising out of or aggravated by .

a- War , invasion , act of foreign enemy , hostilities (whether war be declared or not) , civil war , rebellion , revolution , insurrection , (mutiny , riot , strike , lock-out , civil commotion) military or usurped power , a group of malicious persons or persons acting on behalf of or in connection with any political organization , conspiracy , confiscation , commandeering , requisition or destruction or damage by order of any government or by any public authority .

b- Nuclear reaction , nuclear radiation or radioactive contamination .

c- Wilful act or Wilful negligence of the insured or of his representatives .

d- Cessation of work whether total or partial .

In any action , suit or other proceeding where the insurers allege that by reason of the provisions of Exclusion a) above any loss , destruction , damage or liability is not covered by this insurance the burden of proving that such loss , destruction , damage or liability is covered shall be upon the insured .

Period of Cover

The liability of the Insurers shall commence , notwithstanding any date to the contrary specified in the Schedule , directly upon commencement of work or after the unloading of the items entered in the Schedule at the site . The Insurers liability expires for parts of the insured contract works taken over or put into service .

At the latest the insurance shall expire on the date specified in the Schedule . Any extensions of the period of insurance are subject to the prior written consent of the Insurers .

Section 1 – Material Damage policy no.

The Insurers hereby agree with the Insured that if at any time during the period of cover the items or any part thereof entered in the Schedule shall suffer any unforeseen and sudden physical loss or damage from any cause , other than those specifically excluded , in a manner necessitating repair or replacement , the Insurers will indemnify the insured in respect of such loss or damage as hereinafter provided by payment in cash , replacement or repair (at their own option) up to an amount not exceeding in respect of each of the items specified in the Schedule the sum set opposite thereto and not exceeding in any one-event the limit of indemnity where applicable and not exceeding in all the total sum expressed in the Schedule as insured hereby .

The Insurers will also reimburse the Insured for the cost of clearance of debris following upon any event giving rise to a claim under this policy provided a separate sum therefore has been entered in the Schedule .

Special Exclusions to Section 1

The Insurers shall not , however , be liable for

a- The deductible stated in the Schedule to be borne by the insured in any one occurrence ;

b- Consequential loss of any kind or description whatsoever including , penalties , losses due to delay , lack of performance , loss of contract ;

c- Loss or damage due to faulty design ;

d- The cost of replacement , repair or rectification of defective material and / or workmanship , but this exclusion shall be limited to the items immediately affected and shall not be deemed to exclude loss of or damage to correctly executed items resulting from an accident due to such defective material and /or workmanship ;

e- Wear and tear , corrosion , oxidation , deterioration due to lack of use and normal atmospheric conditions ;

f- Loss or damage to construction plant , equipment and construction machinery due to electrical or mechanical breakdown , failure , breakage or derangement , freezing of coolant or other fluid, defective lubrication or lack of oil or coolant , but if as a consequence of such breakdown or derangement an accident occurs causing external damage , such consequential damage shall be indemnifiable ;

g- Loss of or damage to vehicles licensed for general road use or waterborne vessels of aircraft ;

h- Loss of or damage to files , drawings , accounts , bills , currency , stamps , deeds , evidences of debt , notes , securities , cheques ;

I- Loss or damage discovered only at the time of taking an inventory ;

Provisions Applying to Section 1

Memo 1 – Sums Insured : it is a requirement of this insurance that the sums insured stated in the Schedule shall not be less than

for item : the full value of the contract works at the completion of the construction , inclusive of all materials , wages , freight , customs duties , dues , and materials or items supplied by the Principal ;

for item 2 and 3 : The replacement value of construction plant equipment and construction machinery , which shall mean the cost of replacement of the insured items by new items of the same kind and same capacity ;

and the insured undertakes to increase or decrease the amounts of insurance in the event of any material

General Conditions

1- The due observance and fulfillment of the terms of this policy in so far as they relate to anything to be done or complied with by the Insured and the truth of the statements and answers in the questionnaire and proposal made by the Insured shall be a condition precedent to any liability of the Insurers .

2- The Schedule and the Section(s) shall be deemed to be incorporated in and from part of this policy and the expression “this Policy” wherever used in this contract shall be read as including the Schedule and the Section(s) . Any word or expression to which a specific meaning has been attached in any part of this policy or of the Schedule or of the Section(s) shall bear such meaning wherever it may appear .

3- The Insured shall at his own expense take all reasonable precautions and comply with all reasonable recommendations of the insurers to prevent loss , damage or liability and comply with statutory requirements and manufacturers’ recommendations .

4- a- Representatives of the Insurers shall at any reasonable time have the right to inspect and examine the risk and the Insured shall provide the representatives of the Insurers with all details and information necessary for the assessment of the risk .

b- The Insured shall immediately notify the insurers by telegram and in writing of any material change in the risk and cause at his own expense such additional precautions to be taken as circumstances may require , and the scope of cover and/or premium shall , if necessary , be adjusted accordingly .

No material alteration shall be made or admitted by the insured whereby the risk is increased , unless the continuance of the insurance is confirmed in writing by the insurers .

5- In the event of any occurrence which might give rise to a claim under this policy , the insured shall :

a- immediately notify the insurers by telephone or telegram as well as in writing , giving an indication as to the nature and extent of loss or damage ;

b- take all steps within his power to minimize the extent of the loss or damage ;

c- preserve the parts affected and make them available for inspection by a representative or surveyor of the insurers ;

d- furnish all such information and documentary evidences as the Insurers may require ;

e- Inform the police authorities in case of loss or damage due to theft or burglary .

The Insurers shall not in any case be liable for loss , damage or liability of which no notice has been received by the insurers within 14 days of its occurrence .

Upon notification being given to the Insurers under this condition , the insured may carry out the repairs or replacement of any minor damage , in all other cases a representative of the Insurers shall have the opportunity of inspecting the loss or damage before any repairs or alterations are effected . If a representative of the Insurers does not carry out the inspection within a period of time which could be considered adequate under the circumstances , the Insured is entitled to proceed with the repairs or replacement .

The liability of the Insures under this policy in respect of any item sustaining damage shall cease if said item is not repaired property without delay .

6- The insured shall at the expense of the Insurers do and concur in doing and permit to be done all such acts and things as may be necessary or required by the Insures in the interest of any rights or remedies , or of obtaining relief or indemnity from parties (other than those insured under this policy) to which the Insurers are or would become entitled or which is or would be subrogated to them upon their paying for or making good any loss or damage under this policy , whether such acts and things are or become necessary or required before or after the Insured’s indemnification by the Insurers .

7- If any difference arises as to the amount to be paid under this policy (liability being otherwise admitted) , such difference shall be referred to the decision of an arbitrator to be appointed in writing by the parties in difference or , if they cannot agree upon a single arbitrator , to the decision of two arbitrators , one to be appointed in writing by each of the parties within one calendar month after having been required in writing so to do by either of the parties , or , in case the arbitrators do not agree , of an umpire to be appointed in writing by the arbitrators before the latter enter upon the reference . The umpire shall sit with the arbitrators and preside at their meetings . The making of an award shall be a condition precedent to any right of action against the insurers .

8- If a claim is in any respect fraudulent , or if any false declaration is made or used in support thereof , or if any fraudulent means or devices are used by the insured or anyone acting on his behalf to obtain any benefit under this policy , or if a claim is made and rejected and no action or suit is commenced within three months after such rejection or , in the case of arbitration taking place as provided herein , within three months after the arbitrator or arbitrators or umpire have made their award , all benefit under this policy shall be forfeited .

9- If at the time any claim arises under the Policy there is any other insurance covering the same loss , damage or liability , the Insurers shall not be liable to pay or contribute more than their rateable proportion of any claim for such loss , damage or liability .

Fluctuation in wages or prices provided always that such increase or decrease shall take effect only after the same has been recorded on the policy by the Insurers .

If , in the event of loss or damage , it is found that the sums insured are less than the amounts required to be insured , then the amount recoverable by the Insured under this policy shall be reduced in such proportion as the sums insured bear to the amount required to be insured . Every object and cost item is subject to this condition separately .

Memo 2 – Basis of Loss Settlement : In the event of any loss or damage the basis of any settlement under this policy shall be

a- in the case of damage which can be repaired – the cost of repairs necessary to restore the items to their condition immediately before the occurrence of the damage less salvage , or

b- in the case of a total loss – the actual value of the items immediately before the occurrence of the loss less salvage ,

however , only to the extent the costs claimed had to be borne by the insured and to the extent they are included in the sums insured and provided always that the provisions and conditions have been complied with .

The Insurers will make payments only after being satisfied by production of the necessary bills and documents that the repairs have been effected or replacement has taken place , as the case may be . All damage which can be repaired shall be repaired , but if the cost of repairing any damage equals or exceeds the value of the items immediately before the occurrence of the damage, , the settlement shall be made on the basis provided for in b) above .
The cost of any provisional repairs will be borne by the Insurers if such repairs constitute part of the final repairs and do not increase the total repair expenses .
The cost of any alterations, additions and /or improvements shall not be recoverable under this policy .

Memo 3 – Extension of Cover : Extra charges for overtime , night work , work on public holidays, express freight are covered by this insurance only if previously and specially agreed upon in writing .

Section II – Third party Liability Policy No.
The Insurers will indemnify the insured up to but not exceeding the amounts specified in the Schedule against such sums which the insured shall become legally liable to pay as damages consequent upon .

a- Accidental bodily injury to illness of third parties (whether fatal or not.).

b- Accidental loss of or damage to property belonging to third parties occurring in direct connection with the construction or erection of the items insured under section I and happening on or in the immediate vicinity of the site during the period of cover .

In respect of a claim for compensation to which the indemnity provided herein applies, the insurers will in addition indemnify the insured against .

a- all costs and expenses of litigation recovered by any claimant from the insured , and

b- all costs and expenses incurred with the written consent of the Insurers , provided always that the liability of the Insurers under this section shall not exceed the limits of indemnity stated in the Schedule .

Special Exclusions to Section II

The insurers will not indemnify the insured in respect of

1. the deductible stated in the Schedule to be borne by the insured in any one occurrence ;

2. the expenditure incurred in doing or redoing or making good or repairing or replacing anything covered or coverable under Section 1 of this policy;

3. damage to any property or land or building caused by vibration or by the removal or weakening of support or injury or damage to any person or property occasioned by or resulting from any such damage (unless especially agreed upon by endorsement);

4. liability consequent upon :

  a. bodily injury to or illness of employees or workmen of the Contractor(s) or the Principal(s) or any other firm connected with the project which or part of which is insured under Section I , or members of their families ;

  b. loss of or damage to property belonging to or held in care , custody or control of the Contractor(s) , the Principal(s) or any other firm connected with the project which or part of which is insured under Section 1 . or an employee or workman of one of the aforesaid ;

  c. any accident caused by vehicles licensed for general road use or by waterborne vessels or aircraft ;

  d. any agreement by the Insured to pay any sum by way or indemnity or otherwise unless such liability would have attached also in the absence of such agreement .

Special Conditions Applying to Section II

1. No admission , offer . promise , payment or indemnity shall be made or given by or on behalf of the Insured without the written consent of the Insurers who shall be entitled , if they so desire , to take over and conduct in the name of the Insured the defence or settlement of any claim or to prosecute for their own benefit in the name of the Insured any claim for indemnity or damages or otherwise and shall have full discretion in the conduct of any proceedings or in the settlement of any claim and the Insured shall give all such information and assistance as the Insurers may require .

2. The insurers may so far as any accident is concerned pay to the Insured the limit of indemnity for any one accident (but deducting there from in such case any sum or sums already paid as compensation in respect thereof) or any lesser sum for which the claim or claims arising from such accident can be settled and the Insurers shall thereafter be under no further liability in respect of such accident under this section .

Cooperative Insurance Clause

The policy holder having accepted to deal with the company , should be construed as an explicit agreement by him on .

1- Getting into partnership with other policy holders on co-operative basis .

2- Accepting the Company as his "remunerated agent" to act on his behalf for :

  A - The management of insurance operations , and

  B - The investment of the insurance funds available in the policies holders' account on "Mudharabah" basis , in consideration of a fixed agreed share from any investment return profit , in it's capacity as "Mudhareb".

The company's remuneration percentage from the compiled premiums , as well as the company's share "Mudhareb" from the investments return profits , shall be determined and announced by a public notice to be displayed in the company's head office , and all it's branches . Prior to the commencement of every financial year .

The distributable surplus , resulting from the company's insurance operations account after the necessary provisions and reserves have been set aside , shall be distributed in accordance with the mechanism established by the Sharee'ah Supervisory Committee , and the instructions passed by the Company's Board of Directors to this effect .

Arbitration clause

If any difference arises as to the amount to be paid under policy , such difference shall be referred to the decision of an arbitrator to be appointed in writing by the parties in difference of if they cannot agree upon a single arbitrator , to the decision of two arbitrator , one to be appointed in writing by each of the parties , within one calendar month after having been required in writing to do so by either of the parties , and if a party failed or refrained from doing so within one month after having received notice in writing from the other party , this party will have the liberty of appointing a sole arbitrator . In case of dispute between the arbitrators , an Umpire is to be appointed in writing by them before the commencement of resolving the dispute . The Umpire shall sit with the arbitrators and preside at their meetings . The death of any of the parties in difference shall not cancel or affect the other Arbitrator(s) or the Umpire . In case of death or resignation of the Arbitrator or the Umpire ,the party who appointed him has the right of re-appointing a substitution .
Arbitration costs and Arbitrator(s) or Umpire fees will be decided by the person who issues the Arbitration decision .

But in all cases , disputes including Arbitration Awards , shall be resolved in accordance with the provisions of the Islamic Sharee'ah and the making of an award shall be a condition precedent to any right of action against the Insurers .

7. Social *Takaful* Insurance

Introduction:

It is hereby agreed according to this policy between the Islamic Insurance Company, in its capacity as Manager by proxy of the cooperative insurance system (hereafter known as the Company), and the insured party mentioned in its Schedule to pay the balance due in case of the subscriber's death or permanent total disability during the insurance term. The company shall compensate the insured party by paying the balance due according to the conditions, exclusions , and limitation mentioned in the policy or its appendices, which are an inseparable part of this policy, on condition that the insured party has paid or pledged to pay to the company the insurance premium or the renewal premium mentioned in the policy on the basis of mutual cooperation between the policyholders.

Social *Takaful*:

It is one type of solidarity and cooperation to do righteous deeds which Islam calls for in all areas of life. This is an application of God's word "Cooperate to do righteous and holy deeds and do not cooperate to do evil and aggression." Also, "The example of believers in their cooperation, mercifulness, and empathy towards each other is similar to the one body; if one member hurts, all the other members hurt with it and seek to protect it."

Accordingly, in accordance with the conditions and regulations of this document, the **Islamic Insurance Company,** referred to here as "**The Company**", is obligated to restore the damages which befall the insured party by paying the balance due at the death of the subscriber or his permanent total disability according to the following conditions:

a. Death or permanent total disability takes place during the insurance term, as is mentioned in appendix (1).

b. The policyholder should be resident within the borders mentioned in appendix (1).

c. The responsibility of the company towards every policyholder is subject to the highest level of the insured amount as mentioned in appendix (1).

Article One: Definitions

The following words and expressions will have the designated meaning mentioned below wherever they are mentioned in this policy unless the context states otherwise.

The Company: The Islamic Insurance Company, the first party in the insurance contract.

Social *Takaful:*

An Islamic insurance system managed by the Islamic Insurance Company in its capacity as Manager to the cooperative insurance system. This system is based on the cooperation of the insured parties among themselves to bear the financial expenses which befall any subscriber in this system at his death or his permanent total disability, in the following situations:

a. Balance of creditors who deal with the Islamic banks;

b. Balance of creditors who deal with Islamic financial institutions;

c. Balance of creditors who borrow from housing funds which abide by the Islamic *Sharia* regulations;

d. Balance of creditors who deal with any party which adopts funding by legitimate means;

e. Balance of creditors who study in a university, college, or school.

Insured party:

The second party contracted with the first party (the Company) for the purpose of paying the credit balance of the subscribers in the case of death or permanent total disability.

Subscriber:

The person who is linked to the insured party by contractual interest. He should be an agent of an Islamic bank or financial Islamic institution or a borrower from one of the housing funds mentioned above or a student in a university, college, or school.

Paying the debt balance:

The remaining credit balance for the subscriber is paid in the interest of the insured party in the case of death or permanent total disability of the subscriber during the insurance term.

Permanent total disability:

Disability caused by an accident or illness which occurs during the insurance term and which completely and permanently prevents the subscriber from carrying out his normal job or any other job.

Insurance amount:
The compensation which the company is obligated to pay to cover the standing credit balance on the date of death or permanent total disability.

Article Two: Conditions of Subscription

a. In order to subscribe to the social *Takaful* insurance, the insured party must:
   1. Submit a written subscription application in which he includes all required data about the insured party and those who subscribe through him. The subscription application and the data included in it are considered an integral part of the contract.
   2. Pay the first premium for all the subscribers through him at or before the time of subscription as indicated in the appendix of the contract.

b. Those who are over sixty five at the time of subscription cannot subscribe to this system.

Article Three: Subscription Term

Subscription term starts and ends according to the dates indicated in the appendix of the contract.

Article Four: Subscriptions and Method of Payment

The insured party promises to pay the subscription premiums on the due dates , which are indicated in the appendix of the contract or any subsequent endorsements. If payment is made by a check, it will not be considered paid until the check has cleared and been credited to the company's account.

Article Five: Investment of the Insurance *Takaful* Subscriptions

The company shall invest the available *Takaful* insurance funds according to the regulations of the Islamic *Sharia*.

Article Six: Claiming the Insurance Amount

1. a. The insured party must notify the company in writing of the subscriber's permanent total disability or death within sixty days of the date of disability or death. The notification from the subscriber or his legal representative will be accepted on condition that the insured party supports that notification.
   b. Disability or death must be proven according to the form prepared for that purpose within 120 days of the date of disability or death.
   c. The insured party's right to his claim of the insurance amount will be cancelled in the case that he violates (a) and/or (b) of this article without an acceptable excuse.

2. If the claim is the result of a permanent complete disability, the Company has the right to have the subscriber examined by an accredited medical authority during the period of claim in order to ensure that the claim for the insurance amount is correct.

Article Seven: The waiting Period

1. The claim which is the result of a permanent total disability will be paid by the Company after a period of no less than 12 months after the subscriber has indeed become completely and permanently unable to carry out his normal job or any other job.
2. In the case that the disability of the subscriber is proven to be permanent and total because of loss of sight, loss of both hands or legs, or loss of one hand and one leg, the amount of insurance becomes payable.

Article Eight: Conditions and Method of Paying the Insurance Amount

1. In order for the insurance amount to be payable, the following conditions must be fulfilled:
   a. The main data which the insured party has submitted about the subscriber in the subscription application and its appendixes must be true. If they are proven untrue or if it is confirmed that the subscriber has concealed any necessary information from the insured party or the Company upon submitting the subscription application, the subscriber's right to the insurance amount will be waived.
   b. The insured party must have paid the premiums due according to the regulations mentioned in the insurance policy.

2. The insurance amount is paid to the insured party when it is due, according to the attached appendix.
3. The insurance amount is paid one time only and only in case of permanent total disability or death, whichever occurs first.

Article Nine: Exclusions :

The subscriber's permanent total disability or death shall not be the result of any one of the following causes:

1. Suicide or an attempt of suicide, whether he is sane or insane.
2. Active participation in a declared or undeclared war, in disturbances, riots, or civil war; in revolution, or in rebellion, or civil insurrection; or in external aggression. This exception does not apply to subscribers who are the victims of any of these circumstances.
3. Abuse of medication or when the subscriber is under the influence of alcohol or any drugs .
4. Participation in speed competitions.
5. The death penalty.
6. Participation in the sport of fencing.
7. Trips, including air or maritime transportation unless the subscriber takes part in them as an ordinary passenger in an air or maritime trip in which he is carrying out a public organized service unless he is on an official mission.

9. Violation or attempted violation of the law including an intentional felony or misdemeanor.

Arbitration clause

If any difference arises as to the amount to be paid under policy , such difference shall be referred to the decision of an arbitrator to be appointed in writing by the parties in difference of if they cannot agree upon a single arbitrator , to the decision of two arbitrator , one to be appointed in writing by each of the parties , within one calendar month after having been required in writing to do so by either of the parties , and if a party failed or refrained from doing so within one month after having received notice in writing from the other party , this party will have the liberty of appointing a sole arbitrator . In case of dispute between the arbitrators , an Umpire is to be appointed in writing by them before the commencement of resolving the dispute . The Umpire shall sit with the arbitrators and preside at their meetings . The death of any of the parties in difference shall not cancel or affect the other Arbitrator(s) or the Umpire . In case of death or resignation of the Arbitrator or the Umpire ,the party who appointed him has the right of re-appointing a substitution .
Arbitration costs and Arbitrator(s) or Umpire fees will be decided by the person who issues the Arbitration decision .

But in all cases , disputes including Arbitration Awards , shall be resolved in accordance with the provisions of the Islamic Sharee'ah and the making of an award shall be a condition precedent to any right of action against the Insurers .

Cooperative Insurance Clause

The policy holder having accepted to deal with the company , should be construed as an explicit agreement by him on .

1- Getting into partnership with other policy holders on co-operative basis .
2- Accepting the Company as his "remunerated agent" to act on his behalf for :
   - A - The management of insurance operations , and
   - B - The investment of the insurance funds available in the policies holders' account on "Mudharabah" basis , in consideration of a fixed agreed share from any investment return profit , in it's capacity as "Mudhareb" .

The company's remuneration percentage from the compiled premiums , as well as the company's share "Mudhareb" from the investments return profits , shall be determined and announced by a public notice to be displayed in the company's head office , and all it's branches . Prior to the commencement of every financial year .
The distributable surplus , resulting from the company's insurance operations account after the necessary provisions and reserves have been set aside , shall be distributed in accordance with the mechanism established by the Sharee'ah Supervisory Committee , and the instructions passed by the Company's Board of Directors to this effect .

The Schedule

Contract number…………………………………….

1. Insured party:
   a. Name: ………………………………………..
   b. Address: ……………………………………..
2. Insurance amount: (the maximum limit of the Company's liability)
3. Period of the insurance "subscription"
   a. starting:
   b ending:
4. Value of the annual premium:
5. Method of paying the premiums (subscriptions): …………………………
6. Value of each premium: ………………………………………………….
7. Date when each payment is due: …………………………………………..
8. Geographical borders:
9. Special conditions:……………………………………………………….
   ……………………………………………………………………………….
   ……………………………………………………………………………….

The contractor/the insured party — The Islamic Insurance Company

Signature — Signature

Chapter Four

Insurance Surplus in the Islamic Insurance Companies

1. The Concept of Insurance Surplus

2. Criteria for the Distribution of Insurance Surplus

3. Factors Which Influence Insurance Surplus

4. Applicable Form for the Distribution of Insurance Surplus in the Islamic Insurance Company in Jordan

1. The Concept of insurance Surplus

Insurance surplus is considered one of the main pillars and prominent characteristics of Islamic insurance companies which have adopted as the core of their work cooperative insurance based on donation among the policyholders because it is related to the rights of the policyholders.

Insurance surplus: is the remaining amount of money in the insured parties' account. It includes the sum of their paid premiums and their investments after deducting the payments due to them, payment of claims, reinsurance expenses, and paying fees due to the Company as the agent running the insurance operations as well as monitoring technical reserves.

In other words, insurance surplus consists of the sum of the realized premiums collected in the insurance cooperative fund. This represents all the insurance and technical operations related to the Company's activities in addition to the lawful investment profits of their premiums and the returns from reinsurance operations, less compensation paid to the insured parties, technical reserves, reinsurance expenses, and the fixed fees which the company gets in its capacity as manager of this fund.

The result of this calculation is known as the insurance surplus. It is distributed among the insured parties because only they have the right to it while the shareholders have no right to it. One of the main and basic differences between Islamic insurance companies and commercial (traditional) insurance companies is limiting insurance surplus to the insured parties only and limiting its investment to lawful Islamic means. In commercial insurance companies, the shareholders, and not the insured parties, have the right to the insurance surplus. Moreover, commercial insurance companies do not always consider using Islamic lawful methods when investing the insurance surplus.

2. Criteria for the Distribution of the Insurance Surplus in Islamic Insurance Companies

Islamic insurance companies have been established more recently than commercial (traditional) insurance companies, and they differ in terms of the criteria each company uses to distribute the insurance surplus.

Recently a set of criteria have been approved for the distribution of the insurance surplus in Islamic insurance companies, giving the administration of each company the freedom to choose its own appropriate set of criteria.

Some of the most important sets of criteria include:

First, the distribution of the insurance surplus includes all policyholders without discrimination between those who have received compensation and those who have not. This distribution is in accordance with the percentage of their subscriptions because each subscriber is a donator to others of the compensation he pays them. Whatever remains from his subscription – after deducting expenses, operations costs, and the holding of reserves - must be paid back to him. This method gives priority to the *Takaful* meaning which the subscriber experiences whether his compensation was more or less than his subscription. This criterion is implemented in the Islamic Insurance Company in Jordan, the Islamic Insurance Company and in Al-Baraka Insurance Company in Sudan.

Second, the distribution of the insurance surplus includes policyholders who have not received any compensation. Those who have received compensation do not merit any amount of the insurance surplus. This method takes into consideration the benefit of those who have the advantages of *Takaful* no matter how few those advantages are.

Third, the distribution discriminates between those whose compensation was more than their premiums and those who received compensation less than their premiums. Those who received compensation more than their premiums do not merit any amount of the insurance surplus. But those who received compensation less than their premiums will be given their full share of the surplus less the compensation received.

Fourth, a fixed percentage of the insurance surplus is distributed among the insured parties (policyholders) and the rest remains with the company.

Fifth, the insurance surplus is distributed among the policyholders, but the injured who received compensation get half of the amount given to the non-injured.

3. Factors Which Influence Insurance Surplus

The insurance surplus in Islamic insurance companies is influenced by the following factors:

1. The company administration's experience in lawful Islamic investments and its ability to choose from a variety of investments. To the extent that its choice and investment are successful, the income will be positive and the surplus will be great, and vice versa.
2. The amount of money available from the premiums assigned for investment. The greater the amount of money assigned for investment, the more likely the profit will be great. The result will be an obvious increase in the insurance surplus and vice versa.

3. The amount of compensation paid to the injured among the policyholders. If the compensation paid is little, the insurance surplus will be great. If compensation is great, the insurance surplus will be little.

4. Insurance premiums and the number of subscribers. It is well-known in the theory of great numbers that an increase in the number of underwritten premiums affects the insurance surplus positively. The opposite is also true. The fewer the subscribers, the less the insurance surplus will be.

5. The experience and activity of the marketing department in the Islamic insurance companies. The insurance surplus is influenced positively or negatively by the activity of the marketing department in expanding cooperative insurance in society and by the type of policy which is marketed.

Regarding the influence of the type of policy which is marketed, if there is little possibility of the insured risk, the surplus will be affected positively. If the possibility of the insured risk is great, the surplus will be affected negatively.

6. Reinsurance. Reinsurance plays a big role in influencing the insurance surplus positively or negatively. This depends directly on the company's experience in this field and its ability to choose the type of reinsurance company, refund price, percentage of refund, and mechanisms of reinsurance agreements.
If the company makes the right choice from among international reinsurance companies and takes into consideration the percentage and price of refund, the effect will be positive on the insurance surplus and vice versa.

7. The amount of the fixed fees of the agency on which the company runs insurance operations. The agency's fixed fees are taken from the total sum of the policyholders subscriptions. If the fixed fees are high, the surplus will be negatively affected; if the fees are low, the surplus will be positively affected.

8. Expenses incurred by the cooperative insurance fund. Expenses have an obvious positive and negative influence on the insurance surplus. If expenses incurred by the cooperative insurance fund are high, the surplus will be negatively influenced. If expenses are low, the surplus will be positively influenced. All of this depends on every company's administrative policy which is approved by its board.

9. The formation of technical reserves. In the early stages of the company, the formation of technical reserves and increasing of the amount of money retained for that purpose negatively influence the insurance surplus. The less the amounts deducted from the premiums for the purpose of forming reserves, the higher the insurance surplus will be.

10. The behavior of the policyholders and the extent to which they can shoulder responsibility. If the high morals of Islam and good behavior prevail in society so that every individual monitors his behavior and is thus motivated to care for the insured item while using or managing it, the insurance surplus will be affected positively. Accidents will become less frequent, and therefore less compensation will be paid from the cooperative insurance fund.

Conversely, if society's faith and sense of responsibility are weakened, and selfishness and love of money prevail, then negligence towards insured properties will also prevail. Consequently, the number of accidents in society as well as the amount of compensation will increase. Therefore, the level of insurance surplus will decrease.

4. The Basis of Distributing the Insurance Surplus in the Islamic Insurance Company in Jordan

The Islamic Insurance Company carries out its insurance activities, as any other company working in the field of insurance in the Jordanian market, according to the Islamic insurance model approved by the Higher *Ifta'* Council in Jordan. The following aspects are the most important pillars of cooperative insurance:

1. Participation in cooperative insurance is considered as cooperation to do righteous and pious deeds.

2. The insurance premium is paid according to technical controls mentioned in the insurance contract. Donating part of the premium or all of it, with the participation of the rest of the policyholders, takes place when compensation is due to the injured insured parties and for formation of technical reserves.

3. The insurance surplus belongs to the policyholders and is distributed among them according to the percentage as decided by the board because they have the right to it.

4. A deficit in the cooperative insurance fund is covered from shareholders' account on the basis of a free interest loan.

5. Employees' salaries and all other public expenses related to the administration of the company are paid from the shareholders' account.

6. The company receives fixed fees in return for administering all insurance operations, which are fixed at the beginning of each fiscal year.

7. In the case of liquidation of the company and the difficulty of identifying the names of the policyholders who have dealt with it, whatever is left will be distributed to charity after paying all financial commitments.

<u>The foundations of the insurance surplus that operate in the Islamic Insurance Company:</u>

<u>First, General Principles:</u>

a. The company's board determines the share of the shareholders from the return of investing the insurance premiums on the basis of Mudarbah .

b. The board distributes the insurance surplus according to the criterion which best serves the interests of the company and the rights of the policyholders. The board may delegate this responsibility to the head of the board.

c. The insured party, whether an ordinary person or a common company, is treated during the calculation of the insurance surplus on the basis that he has an ID accounting number during the period in which he dealt with the company, regardless of the technical departments with which he deals.

d. The distribution of the insurance surplus contributes to solidifying the cooperative insurance concept in the minds of the policyholders on the one hand and encourages participation in Islamic cooperative insurance on the other hand.

<u>Second, Components of the Insurance Surplus:</u>

The insurance surplus consists of the following:

1. The insurance premiums subscribed by the company directly or by means of voluntary commitment.
2. The policyholders' share of the profits from investing the surplus of insurance premiums.
3. The returns of reinsurance operations.

<u>Third, Method of Distributing Insurance surplus:</u>

Since insurance surplus is one of the most important characteristics which distinguishes Islamic cooperative insurance from commercial insurance, the company and its *Sharia* Supervisory Commission are dedicated to distributing it according to approved standards, taking into consideration the development of the company and the strengthening of its financial position.

The Commission approved the following method for distribution of insurance surplus:

a. Part of the insurance surplus is designated as reserve in order to strengthen the company's financial position. This designated reserve belongs to the policyholders.

b. Insurance surplus is distributed among all the policyholders according to the first criterion approved by the Islamic insurance companies as mentioned in the second heading above.

c. Insurance departments in the company are considered as one unit and are treated as one portfolio from which all expenditure and commitments are deducted. The surplus is considered as the surplus of the company's cooperative insurance fund.

d. The responsibility of paying legal alms is the personal responsibility of each subscriber.

Calculation of Insurance surplus for dividend purposes :

a. General reserve account
b. Allowance of Doubtful Debits .
c. Income Tax provision .
d. Other appropriate reserves account approved by the Board

The rule for the distribution of the insurance surplus:
Every subscriber' share from the surplus designated for distribution will be calculated according to the following formula:

$$\frac{\text{Surplus designated for distribution X insurance premiums of each subscriber}}{\text{The sum of insurance premiums}} = \text{Subscriber's share}$$

PART TWO

Reinsurance and Its applications in Islamic Insurance Companies

Chapter One: A General Definition of Reinsurance

Chapter Two: Legitimacy of Islamic Reinsurance

Chapter Three: Discussion and Preference of Scholars' opinions in Reinsurance

Chapter Four: The Islamic Solution to the Issue of Reinsurance in the Islamic Insurance Companies

Chapter One

A General Definition of reinsurance

1. The concept of reinsurance

2. The history of reinsurance

3. Aims and motives of reinsurance

4. Methods of reinsurance

5. The legality of reinsurance

1. The Concept of Reinsurance

Reinsurance is when an insurance company (the direct insurer) insures with a company or companies that specialize in reinsurance for any compensation the direct insurer may incur. The reality of reinsurance is when the direct insurance company pays back all or part of the insurance amounts which it insured directly for the purpose of distributing the risks among many companies. This enables it to vary its subscriptions in the field of insurance and to guarantee its commitments when the insured risk occurs. As a result of reinsurance, the company's solvency increases .

Mr. Ziad Ramadan defined reinsurance as: "An agreement between two insurance commissions (that is two companies). One of the two commissions (that is the reinsurance company) pledges to undertake part of the contract to which the second company (that is the direct insurance company) is committed with one person in return for a sum of money which the second company (ceding company) pays the first company."

Dr. Suliaman ben Thanian defined it as: "A technical process by which the direct insurer insures part of the risks which it pledged to insure with another insurer for fear of inability to meet its indemnities."

Dr. Abdul Sattar Abu Ghada pointed out the purpose of reinsurance as: The insurance company pays to the reinsurance company an agreed-upon portion of the insurance premiums received from the insured parties. In this way, the insurance company guarantees, in return for the reinsurance premiums, that the reinsurance company covers a portion of the losses. If the insured risk occurs and the insured party asks for compensation, the insurance company pays the entire amount for the losses and then asks the reinsurance company to pay its portion of the compensation according to the reinsurance agreement.

Dr. Muhammad Othman Shabir defines reinsurance as: The Islamic Insurance Company insures the risks which the insured parties cooperate to restore among themselves with international reinsurance companies in return for premiums which the insurance company pays to the international company. The latter covers the compensation, on behalf of the former, due to the insured parties in case the risks occurred.

In light of the above, reinsurance can be defined as: A contract between the direct insurance company and the reinsurance company by which the direct insurance company pledges to pay an agreed-upon portion from insurance premiums due to it from the insured parties to the reinsurance company in return for the commitment of the reinsurance company to cover a similar portion of the risks to which the direct insurance company is committed.

The practical application of reinsurance is that in cases where one of the insurance companies has to insure a specific risk for a large amount of money beyond its financial capabilities, it often accepts to do that and keeps part of the insured amount. Then it insures the remaining amount at one of the reinsurance companies in order to distuibute the risk between the two companies.

For example, a pharmaceutical factory applies to the Islamic Insurance Company in Jordan asking the company to insure its factory against fire for ten million dinars with a premium of ten thousand dinars. The company accepts and insures the factory, keeping a portion of the risk proportionate to its financial solvency. It keeps 30%, for example, and reinsures the remaining amount.

This means that the premiums which the insured party (the factory) pays are divided between the Islamic Insurance Company and the reinsurance company according to the percentage mentioned above. The insurance company covers its portion and the reinsurance company's portion is the remaining amount.

In case the insured risk occurs (fire, as in the example above), the insured party (the factory) deserves the compensation agreed upon in the insurance policy. The insured party will be compensated by the Islamic Insurance Company and the reinsurance company according to the percentage by which both divided the insurance premiums. Compensation requires payment of premiums.

Sometimes reinsurance companies reinsure part of the insurance at other reinsurance companies that have high insurance abilities.

2. The History of Reinsurance

The concept of reinsurance started in the seventeenth century B.C. concomitant to commercial insurance, which appeared in the same century. The first document known as reinsurance goes back to 1370 A.D. However, it was not based on true technical bases but was similar to a mortgage. Reinsurance was prohibited in England in 1746 A.D. until 1864 A.D. Real reinsurance started at the beginning of the nineteenth century after insurance had been spreading steadily for a long time. There were no companies specialized in reinsurance at that time. Instead, direct insurance companies used to open branches for reinsurance. The first specialized reinsurance company was Cologne Reinsurance Company founded in 1853 A.D. then Munich Reinsurance Company founded in 1883 A.D. Many other companies were established and spread widely in most industrial countries.

Later the concept of cooperative insurance became successful, and Islamic insurance companies were founded on that concept in many Islamic countries. Because these companies were in great need for reinsurance, some Islamic reinsurance companies were founded, such as:

The Islamic Reinsurance Company founded in 1405 A.H. (1985 A.D.) in Bahrain;

B.E.S.T. Re in Tunisia and the Islamic *Takaful* and *Retakaful* in Bahama; the Arab Reinsurance Group (Arig) established the Islamic Reinsurance Company Takaful Re in Dubai with a capital of 75 million dollars.

Work is being done to establish a company which specializes in cooperative reinsurance called: The Saudi Reinsurance Company with a capital of one Billion Saudi riyal fully paid in Al-Riyadh, Saudi Arabia.

3. Aims and Motives of Reinsurance

There are two motives for reinsurance. The first is the inability of direct insurance companies to insure property whose financial value is very high such as huge airplanes, large factories, luxurious buildings, very big stores and so on. The compensation, when the risk occurs, is beyond the financial ability of the insurance company. Therefore, these insurance companies reinsure this type of high value property at the reinsurance companies in order to overcome the serious risks which threaten them.

The reinsurance companies offer protection to the direct insurance companies in the case of losses of insured risks . Compensating the insured risk financially is beyond the direct insurance company's ability and capacity.

The second motive is to increase the capacity of direct insurance companies in the area of accepting risks in order to increase their gains. When direct insurance companies reinsure, the relationship is limited to only the direct insurance company and the reinsurance companies. The insured party does not have any rights with the reinsurance company; his relationship is confined to the company which insured his risks regarding restoring the damage when the insured risk occurs.

According to the reinsurance agreements, the direct insurance company pays to the reinsurance company an amount of money in the form of premiums, called reinsurance premiums, which is determined according to the size of the insured risk. The reinsurance company acts as insurer and covers a portion of the risks which the direct insurance company is committed to. This is done in return for what it receives as premiums.

The reinsurance company offers to the insurance companies amounts of money called Reinsurance Commission and other amounts called Reinsurance Profit Commission.

The Reinsurance Commission is compensation to the direct insurance company for the expenses it incurs for carrying out its original work (practicing insurance) and a contribution by the reinsurance company towards the administrative expenses related to the insured risk.

The Reinsurance Profit Commission is given as a reward to the insurance company for carrying out insurance skillfully and for offering its subscribers the best services by recruiting highly technical experts in the field of insurance regardless of the financial cost.

4. Methods and Forms of Reinsurance

First: Methods of Reinsurance

Reinsurance can be done in two ways:

First: facultative reinsurance. This is the oldest method of reinsurance. It requires the direct insurance company to present to the reinsurers each risk that requires reinsurance one by one. A summary of all the basic information related to the risk should be attached to the application. This will enable the reinsurer to judge whether or not to accept each risk presented to it.

Second, reinsurance agreements. A contract is made between the direct insurance company and the reinsurer. The company agrees to reinsure and the reinsurer agrees to reinsure all works within the limits agreed upon between the two parties. These limits include financial, geographical, and time limits.

According to this agreement, the reinsurer accepts all the risks on which the conditions of the agreement apply. In return, the direct insurance company is committed to reinsure all the risks according to these conditions. In this way, the direct insurance company will be able to provide insurance coverage for any risk which it has to insure, as long as it is within the limits of the reinsurance agreement.

The reinsurer does not have the right to refuse reinsuring any risk mentioned in the reinsurance agreement. The reinsurer is obligated to accept all the risks presented to it, whether good or bad. The most important criteria for the reinsurer to accept the reinsurance agreements are the efficiency of the direct insurance company's administration, its methods of practicing insurance, its experiences in evaluating the risk materially and morally, and its reputation in the field of insurance.

Second: Forms of Reinsurance

The following is a description of the most important forms of reinsurance:

First: reinsurance by quota share . In this case, the direct insurance company agrees with the reinsurer to pay a specific percentage of the insurance contracts it concludes. The reinsurer will get whatever is given to it of the premiums by the direct insurance company, such as one half or one fourth. Reinsurance, in this case, includes all the policies which the direct insurance company concludes whether they are within its insurance capacity or higher.

Second, reinsurance higher than ability. In this case, the direct insurance company reinsures the policies which are higher than its insurance capacity by a specific percentage in which the insurance capacity of the insurance company and the amount of compensation are taken into consideration.

Third, reinsurance higher than a specific limit of loss. In this case, agreement is made between the direct insurance company and the reinsurer. The reinsurer covers a specific portion of losses on condition that the reinsurer gets a percentage of that from the total amount of premiums. This form of reinsurance is widely used in insurances with very high amounts and is clearly seen in vehicle reinsurance agreements. For example, the direct insurance company will take upon itself the first twenty thousand dinars of one accident. The reinsurance company takes upon itself all the amounts exceeding this level of financial and human losses resulting from the accident.

5. A Comparison between Commercial Reinsurance and Islamic Reinsurance

First: Areas of similarities

1. Reinsurance is between two parties. One of them is the reinsurance company and the other is the direct insurance company.

2. The motive for reinsurance is the insurance companies' inability to insure property of very high financial value and their desire to have coverage from reinsurance companies. This coverage enables them to overcome the types of risks where financial compensation exceeds their capacities and abilities. It also increases the absorption capacity of direct insurance companies in the area of accepting risks in order to increase gains.

3. The reinsurance contract is a financial compensatory contract according to which the commercial or Islamic insurance company pays the reinsurance company an agreed-upon portion from the premiums which either one underwrote. In return, the reinsurance company bears its share of the risks to which the direct insurance company is exposed.

4. In the reinsurance contract and regarding payment of compensation when the insured risk occurs, the relationship is limited to the reinsurance company and the commercial or Islamic insurance company only. The insured party does not have any rights with the reinsurance company. His relationship is limited to his insurer only.

5. The reinsurance company, according to the reinsurance contract, is obligated to pay commercial or Islamic insurance companies financial compensation in accordance with the conditions agreed upon between the two parties.

6. The reinsurance company offers companies insured with it, whether commercial or Islamic, amounts of money known as reinsurance commission and another amount known as reinsurance profits commission.

Second: Areas of difference

1. Commercial insurance companies, in their practice of reinsurance, do not take into consideration the legitimacy or illegitimacy of dealing or doing business because they practice commercial insurance without regard to the judgments of the Islamic *Sharia* and to what the *Sharia* allows or prohibits.

As for Islamic insurance companies, the legitimacy or illegitimacy of dealings or doing business is at the core of all its dealings, including reinsurance. Therefore, as it practices reinsurance, it is committed to the lawful Islamic

instructions given by the *Sharia* Supervisory Commissions and by the jurisprudent opinions issued by persons specialized in *Ifta'* and *Sharia* instructions. It, therefore, practices reinsurance according to lawful Islamic criteria.

2. Commercial insurance companies are originally considered as a party in the reinsurance contract. They practice reinsurance on behalf of themselves in order to handle aggravated, self-threatening risks. They are obligated by the insurance contract to pay compensation when the insured risk occurs. The insured party only has to pay the insurance premium according to the contract.

Islamic insurance companies, on the other hand, conclude the reinsurance contract as agents for the subscribers in the cooperative insurance. Because they manage and have a feel for insurance operations, they realize that the insurance premiums collected from the subscribers in the insurance (policyholders) will not enough to pay compensation for the insured risks when these risks occur.

Therefore, another entity is needed to provide protection and coverage for subscribers in Islamic insurance in order to overcome grave risks which threaten them. This entity is the reinsurance company.

3. Commercial insurance companies keep reserve amounts from the reinsurance companies' portion and invest them using usury.

Islamic insurance companies, on the other hand, keep the reserve amounts from the reinsurance companies' portion at the Islamic company as a deposit or invest them according to Mudarabah contract and in lawful Islamic ways. The insurance company is the Mudareb , and the reinsurance company is the capital owner.

4. In commercial insurance companies, the amounts of money which insurance companies pay as compensation for damages, or as reinsurance commission, or reinsurance profit commission are not subject to a *Sharia* judgment. But Islamic insurance companies take into consideration the opinion of the *Sharia* supervisory Commission in its ownership and expenditure of money.

Chapter Two

The Legitimacy of Islamic Reinsurance

First: The opinion of the *Sharia* Supervisory Commission of the Faisal Islamic Sudanese Bank

This subject has been presented to the Commission, which gave the following answers:

1. There is no difference between commercial reinsurance and the commercial insurance contract. It is a commercial insurance contract in which the insured parties are the insurance companies instead of individuals. The restrictions which were mentioned above prohibit reinsurance.

2. An exception to this prohibition is the case or cases where there is a need for reinsurance. This is when Islamic insurance companies face trouble and embarrassment if they do not deal with commercial reinsurance companies. In order for the *Sharia* Supervisory Commission to ensure that there is a need for reinsurance, it referred the subject to insurance specialists in the Faisal Islamic Sudanese Bank. Their answer clearly indicates the special need for reinsurance. Their answer was: "Insurance companies can not be established, and the insurance industry will not prosper, unless there are reinsurance arrangements."

3. In light of the answer given by the management of the Faisal Islamic Sudanese Bank and its experts, the Supervisory Commission approves reinsurance because there is a specific need and within the following limits:

a. The amount paid to the insurance company should be the minimum. This will decrease the need according to the following rule: "A need is estimated by its value." This estimate is left to the experts in the bank.

b. Cooperative insurance companies should not receive profit commission or any other fees from reinsurance companies.

c. Cooperative insurance companies should not keep any reserves for current risks because keeping reserves requires them to pay usurious interest to the reinsurance companies.

d. The contract between the cooperative insurance company and the reinsurance company should be for the shortest period of time.

e. Cooperative insurance companies should reinsure at cooperative reinsurance companies if they exist. The *Sharia* Supervisory Commission should exhort the Faisal Islamic Sudanese Bank to establish a cooperative reinsurance company which will help the bank dispense with dealing with commercial reinsurance companies.

The Commission hopes that using the license to deal with commercial reinsurance companies will be temporary.

Second: The opinion of the *Sharia* Supervisory Commission of the Arab Islamic Insurance Company

The *Sharia* Supervisory Commission authorized Islamic insurance companies to deal with commercial reinsurance companies on the basis of a need in Islamic jurisprudence on condition that the relationship should be restricted between the Islamic company and reinsurance companies without any link with the insured party. Furthermore, Islamic insurance companies are not allowed to take commission in return for services because they render their services to the insured parties and thus have the right to receive payment from the insured parties directly. The reason for this condition is that receiving commission from commercial insurance companies makes Islamic insurance companies act in their capacity as producers for commercial insurance companies.

Regarding receiving commissions from commercial insurance companies, the Supervisory Commission sees no objection to Islamic insurance companies receiving commissions from commercial insurance companies on condition that they do not include these commissions in the company's account. Islamic insurance companies must spend commissions on good deeds and public welfare.

Third , the opinion of *Sharia* Supervisory Commission of the Islamic Insurance Company (Company) in Jordan

The *Sharia* Supervisory Commission of the Company approved reinsurance at commercial insurance companies in case it is difficult to reinsure partially or completely at Islamic reinsurance companies. They based their approval on the fact that there is a need to reinsure as was confirmed by the managers of the Company and other insurance experts. This need is considered a necessity, and Islamic reinsurance companies are few and can not meet the need of one Islamic insurance company regarding reinsurance.

Accordingly, the Company concludes reinsurance agreements according to the following conditions and controls:

1. The Company signs annual agreements with reinsurance companies. The aim shall be to transfer a portion of the risks to the reinsurance companies.

2. The Company is committed to giving back to the reinsurer the agreed-upon portion of the risks covered by reinsurance agreements. The reinsurer is obligated to accept this portion. The liability of the insurer starts when the original insurance contract is concluded with the insured party, according to the reinsurance agreements.

3. The Company is obligated to pay the reinsurance premium in return for the commitment of the reinsurer to pay its portion of the claims. The reinsurer also is committed to paying to the Company commission for the contracts within the agreements. The agreement can also mention that the Company gets a portion of the profits which the reinsurer achieves according to the agreements between them.

4. The insurance company holds a percentage of the Reinsurance premiums as a premium reserve , which is normally 40% for Fire and miscallaneous accidents and 30% for marine insurance. The purposes of this reserve is to ensure that the reinsurer will fulfill its obligations towards the Company, to strengthen the financial position of the Company gradually, and to reveal the principle of utmost good faith in the technical support of the Company. The amounts held back will be invested by the Islamic Investment vehicle in lawful Islamic ways. The reinsurer will be given the agreed-upon portion of the revenue profits from the invested amounts on the basis of Mudharabah .

5. The return on the reserved amount is credited to the Reinsurers account after one year .

6. The reinsurer is committed to paying the Company commission which will be determined by a percentage of the reinsurance premiums.

This amount does not represent commission in the real meaning of the word; it is a contribution by the reinsurer to the direct expenses incurred by the insurance company which are related to the reinsured risks.

7. These commissions enter the policyholders' account under revenues.

Fourth, the opinion of the Jordanian Ifta' Council

Regarding the legitimacy of reinsurance agreements between the Islamic Insurance Company in Jordan and commercial reinsurance companies, the Jordanian Ifta' Council decided the following;

"After being informed of the methods of transactions in the Islamic Insurance Company and its constitution, it became clear to the Council that these methods are based on a cooperative insurance system which is legitimate. However, the Company deals with private reinsurance companies which are not committed to the Islamic *Sharia* regulations in its transactions.

"Since Islamic insurance companies are obliged to reinsure at these private reinsurance companies in order to continue their work in the insurance sector, this situation will continue until Islamic reinsurance companies are established.

"Therefore, the need for reinsurance is a necessity. Scholars have indicated that it is very difficult to fail to meet that need, whether it is a public need (including all the nation) or a private need (a need for a specific group such as a vocational group). The term "private need" does not mean it is an individual need. Therefore, it is permissible to reinsure as long as the need exists within these controls. The Council encourages Islamic insurance companies to establish Islamic reinsurance companies at the international level so that practicing reinsurance will not be based on necessity. Furthermore, the Council asks the *Sharia* supervisory Commission not to resort to reinsurance unless it is certain of the need – and Almighty God knows the best."

Fifth, Dr. Abdul Aziz Al-Khayat's Opinion

Dr. Abdul Aziz Al-Khayat, the previous dean of *Al-Sharia* School at the University of Jordan and a member of the Jordanian Ifta' Council, thinks that it is not permissible for Islamic insurance companies to make reinsurance agreements with traditional (commercial) reinsurance companies. He believes that this is a necessity that permits prohibitions because the legitimate meaning of necessity for which prohibitions are allowed is not fulfilled in this transaction.

He also thinks that there is no need of such necessity to permit Islamic reinsurance with traditional (commercial) reinsurance companies.

Dr. Al-Khayat fears that permitting Islamic insurance companies to reinsure with traditional insurance companies as a temporary procedure will encourage Islamic insurance companies to be satisfied with this arrangement and not to encourage the formation of Islamic reinsurance companies.

He advises developing Islamic insurance companies not to insure beyond their abilities and capacities and not to increase their profits by usurious gains.

He also adds, "The important thing is that all Islamic transactions should be void of usury. If some Islamic institutions are forced to have usurious dealings such as the dealing between Islamic banks and the central bank, the transaction does not become legal and is not justified, even though they were forced. But if Islamic insurance companies deal with reinsurance by their own choice and seek to have legitimate justification for it and to get lawful opinions from the *Sharia* Supervisory Commissions, then we do not agree."

He concludes, "I support the opinion which does not permit reinsurance with reinsurance companies which deal with usury except in the following cases: when the interests of others are linked with Islamic insurance companies; when Islamic insurance companies work with reinsurance companies on condition that they invest their portion in their lawful ways; when they face the danger of dissolution if they do not reinsure; and until Islamic reinsurance companies are established. I believe that the reason Islamic insurance companies deal with reinsurance is that the Jordanian law forces them to reinsure at traditional reinsurance companies and because there are no Islamic reinsurance companies."

Chapter Three

Discussion and Preference

First, Jurisprudential adaptation of reinsurance

Jurisprudential adaptation of reinsurance which is practiced by Islamic insurance companies is a partial commercial insurance carried out by Islamic insurance companies in their capacity as mediator between insured parties and commercial reinsurance companies. The relationship of reinsurance is only between the reinsurance company and the direct insurance company. The insured party can not establish a relationship with the reinsurance company.

If an offer is presented to an Islamic insurance company to insure a specific risk for an amount of money beyond its financial ability, the company accepts that offer. It keeps part of it and insures the remaining part with a commercial reinsurance company in cases when an Islamic reinsurance company does not exist or existing Islamic reinsurance companies are unable to pay back the remaining amount exceeding its capacity . .

For example, a pharmaceutical factory applies to the Islamic Insurance Company in Jordan to insure the factory against fire. The company accepts the application for an insurance amount of two million dinars and the premium of twenty thousand dinars. The company would insure the part of the risk which is within its financial ability. It keeps a certain percentage and reinsures the rest with a commercial reinsurance company if it is difficult to reinsure partially or completely with Islamic reinsurance companies.

This means that the premiums which the insured party (the factory) pays are divided between the Islamic Insurance Company and the reinsurance company according to the percentage mentioned above. The insurance company takes its share of the premiums and the reinsurance company takes the rest.

In the case that the insured risk occurs (fire, as in the example), the insured party (the factory) deserves the compensation agreed upon in the contract. Compensation for the realized loss is given to the factory by the Islamic Insurance Company and the reinsurance company in accordance with the same percentage which was used to divide the insurance premiums. Compensation requires payment of premiums.

Second, passing judgment on reinsurance
In essence, reinsurance is a type of prohibited commercial insurance; therefore, it is prohibited. However, the need for reinsurance is realized as indicated by insurance experts in the previous chapter. Legally, Islamic insurance companies can not carry out their insurance work unless they present sufficient proof that they have made reinsurance agreements. Therefore, reinsurance is a condition necessary to obtain a license to practice insurance work.

It seems to the author that Islamic insurance companies are authorized to reinsure with a commercial reinsurance company. The basis of this permission is not necessity because necessity according to the jurisprudence meaning is not present in practicing reinsurance. The basis is private or public need.

It is well known that a need is equal to necessity whether it is a public or private need. This is one of the Islamic jurisprudent regulations.

A private need is a need which concerns certain people and not others and a certain group and not another group. The need according to which Islamic insurance companies have been authorized to reinsure is not a risk but mere authorization.

Imam Al-Ghassas, the Hanafi jurisprudent in the rules of the Quran said, "In order for a person to keep himself alive, he is permitted to eat from a corpse although it is prohibited to do so." Ibn Al-Arabi said: "He who is obliged without aggression will not be counted sin unto him."

Mr. Mohammad Ali Assayes wondered whether a person should eat until he is satisfied of to meet his need. Malek said that necessity removes prohibition, and so it is permitted to eat from a corpse.

The late Mr. Mustafa Al-Zarka said: "An exceptional judgment depends on necessity, which is a temporary permission of the prohibition. Permission ends when necessity is removed."

Third, restrictions and limits for authorizing Islamic insurance companies to practice reinsurance

Authorizing Islamic insurance companies to practice reinsurance on the basis of a need is not without limits; it is restricted by the following:
1. Islamic reinsurance must first start with Islamic reinsurance companies. Reinsurance with commercial reinsurance companies is not to be encouraged if Islamic reinsurance companies with high financial solvency exist and meet the conditions for obtaining a license to practice insurance.

2. If there are Islamic reinsurance companies which meet the above-mentioned conditions but are unable to reinsure completely, Islamic insurance companies must reinsure partially with Islamic reinsurance companies first and then reinsure the remaining part with commercial reinsurance companies.

3. In the case that there is no Islamic reinsurance company or companies which meet the above-mentioned conditions, Islamic insurance companies are authorized to reinsure with commercial insurance companies. In this case, they must minimize reinsurance to the lowest possible level, which is the level which removes the need. This is in accordance with the rule that says necessity is estimated by its value and a need is estimated by its value also.

Reinsurance which Islamic insurance companies are authorized to practice is a means to turn away damage and risks and not a means to achieve gain and to invest. And Almighty God knows the secrets.

4. Islamic insurance companies are prohibited from keeping any cash reserves for current risks which belong to commercial reinsurance companies if that action results in paying usurious interest.

I recommend that Islamic insurance companies do not transfer amounts from premiums due to commercial reinsurance companies. They should keep the largest amount possible as a deposit which contributes to increasing its insurance capacity and prevents it from being invested in commercial reinsurance companies.

Agreement can be made between Islamic insurance companies and commercial reinsurance companies to allow Islamic insurance companies to invest these amounts in lawful Islamic ways on the basis of a Mudharabah contract. Islamic insurance companies would be the Mudhareb and commercial reinsurance companies would be the capital owner. Profit would be according to the agreement. This practice is used by the Islamic Insurance Company in Jordan.

5. The term of agreements between Islamic insurance companies and commercial reinsurance companies should last only as long as there is a need for reinsurance. An Islamic insurance company should stop reinsurance whenever they are able . This matter is left to the administration of these companies. They are responsible before Almighty God to reinsure in such a way that protects the rights of policyholders and ensures giving the contracted insurance protection in order to meet their contractual obligations.
It must be mentioned that any violation of reinsurance rules and restrictions renders reinsurance agreements void and invalid . Accordingly, members of the

Sharia Supervisory Commission of companies have the responsibility to follow up on the commitments of companies to these restrictions and offering guidance and direction whenever needed. This is their responsibility before God Almighty.

Fourth, *Sharia* judgment on financial gains which Islamic insurance companies get from reinsurance:

All the financial gains which Islamic insurance companies get from Islamic reinsurance companies as compensation for damages which the insured parties incur, or from reinsurance commissions, or from commissions of reinsurance profits, are considered lawful gain if these companies reinsure in a lawful Islamic way and invest their money and reinsurance premiums in lawful Islamic ways also.

But if Islamic reinsurance companies are practicing reinsurance in the prohibited commercial method and invest their money and the insurance premiums in lawful Islamic ways, then the income of these companies has a mixture of what is lawful and what is illegitimate (prohibitive).

The jurisprudent judgment on these companies is based on four different sayings. The preferable saying is the one which permits dealings with these companies. However, if an alternative is found, then dealings with them should stop because of suspicion that Islamic insurance companies would be dealing what is prohibitive.

Fifth, *Sharia* judgment on financial gains which Islamic insurance companies get from commercial reinsurance companies

As a result of the insurance contract between commercial reinsurance companies and Islamic insurance companies, Islamic insurance companies get the following financial gains:

1. Damage compensation. Commercial reinsurance companies undertake a percentage of the damage compensation when the damages occur, which is equivalent to their share in the premiums due to them from reinsurance.

2. Reinsurance commission. It is the part agreed upon between the two companies and which is paid from the share of the reinsurance company in the premiums to the direct Islamic insurance company in return for the effort it makes in securing insurance contracts for which the Islamic insurance company reinsures.
3. Reinsurance profit commission. This is the increase in revenues over expenditures in reinsurance agreements. It is paid as a percentage by

reinsurance companies to direct Islamic insurance companies for running insurance operations skillfully and rendering the best insurance services to their customers insured with them. Direct Islamic insurance companies carry out this work by recruiting highly skilled technical experts in the field of insurance and reinsurance regardless of the financial cost.

This reward is paid as an agreed-upon percentage from the profits of the reinsurance company according to the reinsurance agreements between the two companies. If the reinsurance company makes profits from the reinsurance contracts signed by both companies, it is committed to paying the agreed-upon portion of these profits to the Islamic insurance company.

The *Sharia* judgment on these gains is as follows:
1. Damage compensation is due in lawful ways because prohibition which becomes permitted by necessity or need is permitted to the extent by which damage is removed.

Reinsurance which Islamic insurance companies carry out with commercial insurance companies is permitted on the basis of the fact that private need becomes necessity as mentioned before.

2. The reinsurance commission is an inseparable part of the premiums which the reinsurance company pays. It is kept by the Islamic insurance company as compensation for the expenditure the company incurs in order to get insurance contracts. It is also a contribution by the reinsurance company in the administrative expenses of the insured risk.

Therefore, this commission is considered lawful income because it is not part of the reinsurance companies' money . It is part of the premiums which have not been transferred to reinsurance companies and so are not owned by them. The real part that reinsurance companies own and which is considered part of their money is the remaining part of their share in the premiums after deducting commission.

3. Reinsurance companies grant Islamic insurance companies reinsurance profits as a reward for concluding reinsurance agreements with them, for their additional efforts, and for their distinguished faithfulness and professionalism. Returns are not given because Islamic insurance companies practice cooperative insurance, which is lawful.

It must be mentioned that reinsurance profit commission is not paid from the money of reinsurance companies. This commission is part of their financial payables to Islamic insurance companies. It is kept for Islamic insurance

companies on the basis of compensation (offset). The profit which the Islamic insurance company deserves according to reinsurance agreements is deducted from the reinsurance company's payables to the Islamic insurance company.

Although reinsurance practiced by Islamic insurance companies is permitted on the basis of the private need which is equivalent to necessity, this commission should not be added to the shareholders' account. It must be given back to the insured parties because any profitable income resulting from practicing insurance operations is achieved by means of the cooperative insurance fund belonging to the insured parties. The insurance company runs this fund for the benefit of the insured parties.

In this way, the foundation of the Islamic insurance companies' mechanism is achieved. It is the separation of the shareholders' account from the insured parties' account. And this mechanism is practiced by the Islamic Insurance Company in Jordan.

Chapter four

The Islamic Solution to the Reinsurance Issue

The urgent need for reinsurance, by which the Islamic Insurance Company is permitted to practice insurance, has forced Islamic insurance companies to practice reinsurance with commercial insurance companies.

Therefore, an Islamic alternative must be encouraged to replace reinsurance with commercial reinsurance companies. This alternative is to establish Islamic reinsurance companies and to set up a union of Islamic insurance companies so that they can cooperate to cover the effects of aggravated risks which each company alone is unable to compensate.

The first solution, which is establishing Islamic reinsurance companies, has started to be implemented. A company, whose headquarters is in Tunis, has been established for this purpose. What characterizes its work is that it invests its capital and shares from reinsurance in lawful Islamic ways.

However, the insurance contract it concludes with Islamic insurance companies is a commercial insurance contract. According to this contract, the Islamic insurance company pays to the Islamic reinsurance company an agreed-upon share of the premiums which the Islamic insurance company has underwritten. In return, the Islamic reinsurance company is obligated to undertake its share of the risks to which the Islamic insurance company is exposed. This is exactly what commercial reinsurance companies do.

The drastic lawful solution to the reinsurance issue may be the following:

First, insurance by solidarity among Islamic insurance companies which cooperate to divide the insured risk which none of them alone can undertake. Thus, every company underwrites part of the risk which is able to. **According to insurance experts, this is known as divided subscription.**

Second, establishing a union for Islamic insurance companies on the basis of cooperative insurance among them. One company, on behalf of the others, concludes contracts with the insured parties. The other companies accept this contract, each one according to the part of the contract which belongs to it. **This is known as collective insurance or accumulated subscription.** Every company has its own character and financial entity. If a union is made among these companies, their financial entities are joined together to have a high insurance capacity. Thus, the first motive for reinsurance is achieved, which is to provide coverage which enables the companies to cover aggravated risks whose financial compensation, when the risks occur, is beyond the ability of each Islamic insurance company on its own .

The jurisprudential basis for collective cooperation in Islamic insurance is the system of *Akila* in the prophetic tradition. This system says that if someone kills another person inadvertently, he has to pay blood money and should not be punished. Blood money is distributed among the members of his *Akila* (tribe) and has to be paid within three years. If the member of the tribe is not able to pay the blood money in three years, the members of the closest tribes or relatives contribute towards that . If the perpetrator does not have a tribe or relatives and supporters (such as he is an orphan), he has to pay blood money himself within three years. If he does not have enough money, his *Akila* will be the state's treasury which pays the blood money.

Conclusion: The *Akila* system aims at distributing financial burdens on the perpetrator and others in a cooperative way. It also ensures that the blood of the victims killed inadvertently is not forgotten in cases when the perpetrator may be poor and can not pay the money.

The similarity between the *Akila* system and the cooperative system in Islamic insurance is that the financial obligation in the inadvertent killing (blood money) is distributed among the *Akila* members in the same way that financial compensation is distributed among subscribers in the cooperative insurance when the insured risk occurs. In case the *Akila* members cannot pay the blood money, another party should pay it. This party is the closest tribe or relatives and then the state so that the victim's blood would not be wasted.

In the Islamic insurance system, the inability of the cooperative insurance company to cover the financial obligations resulting from the aggravated insured risks requires the presence of another party to help the company and to bear these obligations that the rights of others will not be wasted. This party is the union of Islamic insurance companies.

Third, establishing Islamic reinsurance companies with a large capital with the participation of the Islamic banks in the Moslem world. This is returning gratitude with gratitude. The establishment of Islamic insurance companies enhances the Islamic economy cycle because these companies support Islamic financial banks and institutions. These institutions can not fulfill their economic message except by dealing with Islamic insurance companies.

Financial institutions and especially Islamic banks should support Islamic insurance companies by giving them the financial ability to undertake aggravated risks which each insurance company alone cannot handle. This should be done by establishing Islamic reinsurance companies with high financial solvency. They should also be categorized similarly to traditional reinsurance companies because achieving a high level of security is now a condition required by supervisory and regulatory insurance commissions in the

world. The Islamic reinsurance companies' capital should be from these financial institutions.

The justification for the need of this solution is that the lion's share of the Islamic insurance companies' stocks belongs to an Islamic bank in the country where the insurance company was founded. Islamic insurance companies are the "daughters" of Islamic banks; parents must care for their daughters.

Fourth, establishing Islamic reinsurance companies with the contribution of the direct Islamic insurance companies because of the financial limitation of each company alone.

These companies are established as joint-stock companies with high capitals. In addition to the contribution of direct Islamic insurance companies, large capital owners also contribute so that the value of one stock (share) will be high. This enables them to practice cooperative insurance on higher levels than insurance levels on which Islamic insurance companies carry out their work at present. Thus, the capacity of these Islamic reinsurance companies increases.

Applying this principle means that cooperative insurance companies must be categorized into groups according to their capacity and insurance abilities. In this way the company will not undertake more than what it could handle and will use this situation as a justification to deal with commercial and Islamic reinsurance. This is in fulfillment to God's words: "He will not ask someone to do something more than what he could handle."

Activating this Islamic solution to the problem of commercial reinsurance which Islamic insurance companies practice achieves credibility to Islamic insurance companies, prevent criticism against them, and give Moslems security in dealing with them. Consequently, they will continue the work and spirit of giving according to a *Sharia* methodology which makes them Islamic in appearance and in essence.

We hope that God Almighty will facilitate the application of this solution sooner or later.

CONCLUSION

The Role of Sharia Supervisory Commissions In Islamic Insurance Companies

Islamic insurance companies are not merely financial institutions seeking profit; they are institutions with a message which employs Islamic *Sharia* as their source and methodology. They are characterized by having new innovations which comply with Islamic *Sharia* and its principles and general aims.

The legal basis for appointing *Sharia* supervisory commissions

The constitution of every Islamic insurance company stipulates the appointment of a *Sharia* supervisory commission or a *Sharia* expert for every company. The purpose of this appointment is to ensure that the activities of the company do not contradict the rules of Islamic *Sharia* and to guarantee that the company is committed to the rules and regulations of Islamic *Sharia* in its practice of insurance work.

The capacity of the Sharia Supervisory Commission's decisions

In order for the aims of the *Sharia* Supervisory Commission to be fulfilled, its decisions and judgments (*Fatawa)* must be binding to Islamic insurance companies. This requires the following:

a. The administration of each company must comply with the directions, decisions, and judgments issued by its *Sharia* Supervisory Commission.

b. If the directions and judgments of *Sharia* Supervisory Commissions contradict the provisions of the law which regulates the work of insurance companies, the *Sharia* judgments take precedence over the provisions of the law because of the precedence of the "specific" over the "general". The provisions of the law are general conditions applied to all companies including Islamic insurance companies, but the decisions of the *Sharia* Supervisory Commissions are specific for Islamic insurance companies only.

Criteria and rules of appointing members of the Sharia Supervisory Commissions

The following criteria and rules are taken into consideration when choosing members of *Sharia* Supervisory Commission in Islamic insurance companies:

1. Members must have a doctorate in Islamic *Sharia.*
2. Members must have specialization in Islamic jurisprudence.

3. It is preferred to have members who are specialized in the jurisprudence of transactions and who have publications and research in Islamic financial transactions in general and in Islamic insurance cases in particular.

<u>Responsibilities and duties of Sharia Supervisory Commissions in Islamic insurance companies:</u>

First, responsibilities and duties in general:
The duties of the *Sharia* Supervisory Commissions are to follow up, examine, and analyze all the types of work which the companies perform to ensure that they are done according to the provisions, regulations, and purposes of the Islamic *Sharia.* This process includes contracts, agreements, investments, and immediate corrections of any mistakes and violations.

Second, responsibilities and duties in detail:
1. Verifying the legitimacy of the insurance documents according to the following criteria:
a. not to insure legally prohibited property such as imported wine containers,
b. not to insure institutions, such as commercial banks, which practice work not according to the Islamic *Sharia* .
2. Ensuring that the reinsurance agreements made by the company are legal and comply with the instructions of the *Sharia* Supervisory Commission.
3. Ensuring that all the investments of the company are legal and in agreement with the provisions of Islamic *Sharia,* and that:
a. they are free from prohibited interest either in borrowing or in income,
b. companies do not buy shares of companies which practice prohibited work.
4. Giving answers and opinions as well as offering legal solutions to the company administration's inquiries regarding new issues that may arise during practical application of insurance operations.
5. Assuring clients of Islamic insurance companies regarding the legitimacy of the work and activities of these companies.
6. Giving advice and guidance to the company administration regarding anything which helps it to progress and prosper especially the adherence of its employees to *Sharia* regulations which must be taken into consideration in Islamic insurance.
7. Putting forward the necessary restrictions and controls to correct the direction of the company's work in order for it to comply with Islamic *Sharia* provisions, such as controls over reinsurance with commercial reinsurance companies.
8. Disseminating Islamic thought by means of research and special books dealing with Islamic insurance theoretically and practically and by means of Islamic insurance Fatwa in Arabic and English.
9. Preparing and submitting to the General Assembly of the company an annual report proving the legitimacy of documents and reinsurance agreements and

showing that the company's investments are free from any violation of the Islamic *Sharia.*

Practical Applications of the Duties of the *Sharia* Supervisory Commission in the Islamic Insurance Company in Jordan

First, regarding the legality of insurance documents

The following questions were presented to the *Sharia* Supervisory Commission

1. Is the Islamic Insurance Company permitted to insure stores or companies whose main work is legitimate while some of its sub activities include works in violation of Islamic Sharia provisions (such as selling wine, ham, or similar items).

The Commission's answer was:

a. The Islamic Insurance Company is not permitted to insure stores or companies whose main activity and aim is to trade in or manufacture prohibitive items.

b. The Islamic Insurance Company is permitted to insure stores or companies whose main work is not prohibited such as hotels, restaurants, supermarkets, and airplanes even if they practice secondary prohibited activities as long as the majority of their work is not prohibited according to *Sharia* and as long as compensation does not include those prohibited items when the insured risk occurs.

2. What is the *Sharia* judgment for the *Takaful* insurance of commercial banks' employees and their families and the insurance of their cars and property?

The Commission's answer was:

It is permitted to insure the cars and property of banks' employees because these are personal property and are used in different ways for personal interest and personal needs. *Takaful* insurance is also permitted for these employees and their families.

3. Is it permitted to insure imported goods which include prohibited items not according to Islamic *Sharia*, that belong to a Moslem or non-Moslem?

The Commission's answer was:

It is not permitted at all to insure any goods which are prohibited and not according to Islamic *Sharia* , and which belong to a Moslem or non-Moslem.

Second, regarding the legality of reinsurance agreements
1. In Islamic insurance companies, who has to pay the expenses regarding the transfer of reinsurers' payables, paid in the following way:

The company has to incur banking expenses when it transfers reinsurance companies' payables (these expenses include the price of stamps, transfer's commission, central bank's commission, telex expenses, and the difference in money exchange, etc.)

The Commission's answer was;
Policyholders have to undertake all expenses related to insurance and reinsurance activity.

2. Should the reinsurer pay the inspection fees or any other additional expenses which the company has paid in order to complete the payment of the claim according to insurance practice?

The Commission's answer was:
The additional expenses which the Islamic insurance company incurs to complete the payment of claims from reinsurance companies must be undertaken by the reinsurer because it fulfills public interest which can be compensated by money as is legally decided.

3. Is it permitted for the Islamic Insurance Company to participate in insurance operations with reinsurers or commercial insurance companies or get some of these operations from them?
The Commission's answer was:

There are two ways to participate in insurance operations with reinsurers or commercial insurance companies. The first is by getting a percentage of the current policies without discriminating among their contents. The second is by choosing specific operations from the operations offered to the company. The permitted method according Islamic *Sharia* , is the method of choosing specific operations because the company can avoid operations which are prohibited to insure.

Third, regarding the legitimacy of investment
1. Is it permitted for the Islamic Insurance Company to participate in public share holding companies whose work is legal while these companies deposit part of their funds in usurious banks or borrow from usurious banks? i.e. the situation of investing in “Ethical” funds should be permitted .

The Commission's answer was:
There is no legal reason which prevents The Islamic Insurance Company to be involved with companies whose work is in accordance with Islamic *Sharia* provisions and whose basic activities are legitimate even though these companies may deposit their funds in commercial banks or borrow from them. The Islamic Insurance Company has to get rid of the interest which was included in its income. It can do this by spending it on good deeds. It is better for the Islamic Insurance Company to be involved in companies which operate according to Islamic *Sharia* provisions in their deposits and the funding they receive.

Fourth, regarding the company administration's inquiries
1. Can the Islamic Insurance Company legally ask a policyholder who has failed to pay the insurance premium on time to pay the premium by taking him to court?

The Commission's answer was:
Yes, it can. This is considered a donation commitment and not a voluntary donation. Al-Maliki jurisprudents stated that commitment is legally binding, and the company is responsible to protect the interests of the insured parties.

2. Is it legally permitted to have disparity in the amount of compensation in the social *Takaful* insurance? For example, compensation differs from one person to the other in the social *Takaful* insurance. One person is compensated by 10 thousand Dinar and the other by 50 thousand Dinar, bearing in mind that there are clients who insure for different amounts.

The Commission's answer was:
It is legally accepted to have disparity in compensating the insured parties in the social *Takaful* insurance. This difference is in accordance with the differences in the premiums. This is in harmony with the principle of giving in return for taking. Whoever pays a higher premium increases the assets of insurance and therefore receives more compensation. This principle also achieves the interest of the person who wants *Takaful* and who seeks to provide for his family a good standard of living, similar to the standard he enjoyed in his life. This is the grace of God, who gives to whoever He wants. In addition, it does not violate the principle of cooperation because the compensation certain people receive is different from what others receive.

3. What is the *Sharia* judgment regarding financial compensation in case of a pregnant mother's death due to a car accident? The case is as follows. A car

accident resulted in the injury of the passengers including the death of a pregnant mother and her fetus. Is the fetus considered a human soul legally and if so, is it compensated because it inherits and can give inheritance?

The Commission's answer was:
In the case of the death of a pregnant mother and her fetus the maximum compensation is given as stated in the compulsory insurance in effect. Five percent is also added to the amount according to the blood money system in the Islamic *Sharia* in relation to the fetus. If the case is taken to court, the court's decision is binding, and reconciliation may be made for a lesser amount.

4. Is there any *Sharia* prohibition or *Sharia* violation when the Islamic Insurance Company responds to a request by the insured party asking that one or some of the inheritors and no one else be the beneficiary according to the insurance policy?

The Commission answer was:
Compensation payable because of death can be distributed according to inheritance provisions because it is part of the inheritance of the deceased. Compensation may be distributed to the persons, parties, or purposes which the subscriber specified in the insurance application. Compensation is regarded as donations from subscribers given to whoever the subscriber has mentioned and must be paid to him/them; compensation is not considered part of the inheritance of the deceased. It is up to the *Sharia* Supervisory Commission in the Islamic Insurance Company to decide what it considers appropriate to include in the typical contract among the insured parties. If the typical contract does not mention how distribution should be made or if the subscriber did not mention who would receive his inheritance, compensation will be distributed according to the inheritance provisions.

The Commission recommends that the Company adopt the second method which is distribution to the persons or parties specified by the subscriber in the insurance application. This method fulfills the desire of the subscriber in protecting the weak person from his family, and it encourages others to subscribe to the social *Takaful* insurance.

Fifth, regarding disseminating Islamic insurance ideas
The administration of the company, in coordination with the Sharia Supervisory Commission, has sought to disseminate Islamic insurance ideas through the following channels:

(a) Holding an Islamic insurance seminar in the Jordan Islamic Bank in July 1997.

(b) Participating in conferences and special seminars on Islamic insurance in many universities and Islamic financial institutions through one of the members of the *Sharia* Supervisory Commission.

(c) Participating in setting accountancy criteria for Islamic insurance companies through the Head of the *Sharia* Supervisory Commission, Dr. Abdul Sattar Abu Ghida.

(d) Participating in setting criteria for the distribution of insurance surplus in Islamic insurance companies, issued by the Islamic Criteria and Accountancy Commission through the Head of the Sharia supervisory Commission , Dr, Abdul Sattar Abu Ghida.

(e) Publishing a number of publications related to Islamic insurance in Arabic and English. Some of the most important are:
1. Islamic Insurance by Dr. Ahmed Salem Mulhim, Member of the *Sharia* Supervisory Commission.

2. Reinsurance and Its Applications, by Dr.Ahmed Salem Mulhim, Member of the *Sharia* Supervisory Commission.

3. Islamic Insurance, Theory and Application, English Edition, by Mr. Ahmed Mohammad Sabbagh, General Manager of the Company and Dr. Ahmed Salem Mulhim, Member of the *Sharia* Supervisory Commission.

Sixth, Preparing annual reports
The *Sharia* Supervisory Commission prepares an annual report and submits it to the General Assembly.

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